Secure Trust Bank PLC

Interim Report for the six months ended 30 June 2021

Secure Trust Bank

About us

Secure Trust Bank ('STB') is an award-winning UK retail bank, providing savings accounts and lending services to over one and a half million customers.

Born in 1952 in the West Midlands, we've had plenty of time to hone our craft.

Supportive. Specialist. Diversified.
A bank with ambition.

www.securetrustbank.com

We are a well-funded and capitalised UK bank, with a track record of successful performance across a diverse lending portfolio.

We use our market awareness and strong risk management discipline to grow, supporting our retail and business customers in attractive markets.

Profit before tax

£30.7m

30 June 2020: £5.1 million

Total assets

£2,637.1m

30 June 2020: £2,630.7 million

This Interim Business Report includes alternative performance measures that are not defined or specified under IFRS. Further information in respect of these measures is provided from page 54.

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Key performance indicators

The following key performance indicators ('KPIs') are the primary measures used by management to assess the performance of the Group:

The Remuneration Report, starting on page 83 of the Group's 2020 Annual Report and Accounts, sets out how executive pay is linked to the assessment of key financial and non-financial performance metrics.

These KPIs represent alternative performance measures that are not defined or specified under IFRS. Definitions of the financial KPIs, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Interim Report on page 54. In the narrative of this financial review, KPIs are identified by being in bold font.

Margin ratios

Net interest margin %

Why we measure this

Shows the interest margin earned on the Group's loan books, net of funding costs

Net revenue margin %

Why we measure this

Shows the overall net margin earned on the Group's loan books, including fees and commissions

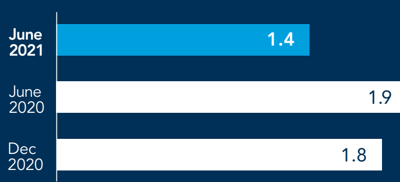
Gross revenue margin %

Why we measure this

Shows the yield of the Group's loan books, including fee and commission income

Cost ratios

Cost of funds %



Why we measure this

Measures the cost of the Group's customer deposits and other funding sources

Cost to income ratio %

Why we measure this

Measures how efficiently the Group utilises its cost base to produce income

Cost of risk %

Why we measure this

Measures how effectively the Group manages the credit risk of its lending portfolios

Delivering

Loans

Loans and advances to customers £m

Why we measure this

Shows the growth in the Group's lending balances, which generate income

(1. Includes Assets held for sale)

Loan to deposit ratio %

Why we measure this

Measures the adequacy of liquidity by comparing loan balances to customer deposits

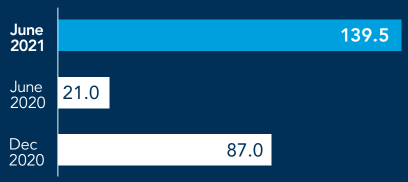
Total funding ratio %

Why we measure this

Measures the adequacy of liquidity by comparing all funding held by the Group to loan balances

EPS

Basic earnings per share pence



Why we measure this

Demonstrates the earnings attributable to each share

Capital

CET 1 Ratio %

Why we measure this

The Common Equity Tier 1 ('CET 1') ratio demonstrates the Group's capital strength

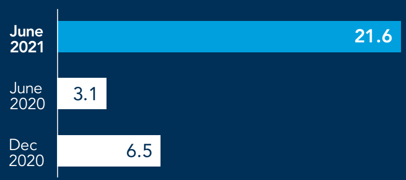
Return ratios

Return on average equity %

Why we measure this

Measures the Group's ability to generate profit from the equity available to it

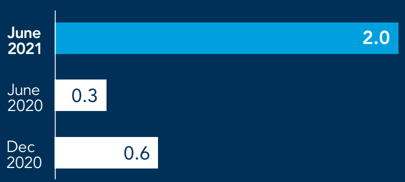
Return on required equity %



Why we measure this

Relates profitability to the capital that the Group is required to hold

Return on average assets %



Why we measure this

Demonstrates how profitable the Group's assets are in generating revenue

Non-financial KPIs

Customer FEEFO rating Stars

(mark out of 5 based on star rating from 594 reviews. (June 2020: 550 reviews, December 2020: 1,466 reviews))

Why we measure this

Indicator of customer satisfaction with the Group's products and services

Employee survey trust index score %

(based on 2020 all staff survey)

Why we measure this

Indicator of employee engagement and satisfaction

Environmental intensity indicator

(tonnes of carbon dioxide per £1 million Group income)

Why we measure this

Indicator of the Group's impact on the environment

Chairman’s statement

Lord Forsyth
Chairman

“The challenges of 2020 are thankfully behind us and STB is determined to take advantage of the opportunities that economic recovery brings.”

I am absolutely delighted to report a profit before tax for the first half of this year of £30.7 million (30 June 2020: £5.1 million) and to propose an interim dividend of 20 pence per share payable on 27 September 2021. The challenges of 2020 are thankfully behind us and STB is determined to take advantage of the opportunities that economic recovery brings. Our capital ratios remain strong and we are well placed to drive growth in all of our businesses.

David McCreadie as Chief Executive Officer has moved quickly to strengthen the management team and deliver our strategy to focus on the businesses that have the strongest prospects for delivering sustainable long term growth. We have wound down our OneBill product and in July we sold our non-core books in SME Asset Finance and Consumer Mortgages.

We will be holding a Capital Markets day for the first time in November to enable shareholders to engage with the leaders of each of our businesses. I think they will be as impressed as I am.

I was pleased to welcome Finlay Williamson to the Board last month. He comes with a wealth of experience in banking and financial services and has been appointed to the Risk and Nomination Committees. Charles Mayo too is a great addition to our team and joined us from Simmons & Simmons as our General Counsel following the untimely death of Alan Karter.

My thanks go to the whole Board for the tremendous support they have given to enable us to navigate through this extraordinary period of uncertainty.

As a specialist bank with a diverse portfolio, proven business model and a strong team, we have performed exceptionally through what sometimes felt like the worst of times. I am really proud of the way our people met that challenge and look forward to the future with renewed confidence.

Lord Forsyth
Chairman

4 August 2021

Chief Executive's statement

Our team is strong, our capital and liquidity positions healthy, and our focus now aligned on our core businesses which all have clear growth potential."

A positive performance and return to growth

I am delighted to report such a positive set of interim results which evidences the Group's readiness to take advantage of the improving economic outlook. The success to date of the vaccination programme and UK Government's economic interventions provides cause for optimism and allows us to move ahead with our growth agenda, supported by the record level of interim profits.

We explained in our 2020 Annual Report and Accounts how the COVID-19 pandemic caused our balance sheet to contract from the second quarter of that year. With all of our core businesses exhibiting healthy growth potential, customer lending balances[1] have climbed back to £2,389.9 million, which is up 1.3% on the 2020 year-end position of £2,358.9, despite the continued pandemic restrictions remaining in place for much of the period. Excluding our non-core business lines, lending balances increased by 2.6%.

The growth we have experienced has had an adverse impact on our cost to income ratio in the short-term, but this ratio will improve as the balance sheet growth brings additional revenues and we remain committed to the medium term target for cost to income that we outlined earlier this year.

Throughout the pandemic we supported our Consumer Finance borrowers by offering payment holidays in line with regulatory guidance. The vast majority of these arrangements have now concluded, with no material increase in loan defaults. As the economic outlook has improved, we have also slightly reduced the severity of the forward-looking scenarios which feed IFRS 9 provision models. Along with an improved quality loan book, and the reduced size of the Motor Finance book, impairments are significantly down on the prior period. Our cost of risk reduced to (0.2%) from 2.9% at the equivalent point in 2020, driven by the release of provisions. We continue to hold sufficient provisions, with 3.1% provision cover on the loan book (December 2020: 3.4%).

These factors have contributed to a record profit before tax for the period of £30.7 million, over six times higher than the profit for the six months to 30 June 2020.

Capital and liquidity remain healthy

The earnings in the year, partially offset by movements in the IFRS 9 transitional relief have resulted in a stable CET 1 ratio, and a modest improvement in total capital ratio.

We have sufficient levels of capital to fund our growth ambitions over the coming years. Clearly, we will closely monitor for any changes to capital requirements as the pandemic eases, particularly the restoration of the countercyclical capital buffer. We have no current plans to raise additional capital outside of retained profits.

1. Including Assets held for sale.

Chief Executive's statement
continued

The suppression of lending growth throughout the pandemic allowed us to manage liquidity levels down, and to move funding away from higher cost fixed rate deposits to Access accounts and ISAs. This has continued to have a positive impact on funding costs in the period. Liquidity levels continue to be significantly higher than regulatory requirements.

Supporting our customers

I am pleased that our customer service scores reflect the positive ways we supported our customers during the pandemic. The most recent ratings, measured through Feefo, show that our average score remains at 4.7 stars out of 5.

In addition to the payment holidays offered to our Consumer Finance customers, we also offered CBILS and CLBILS (see page 11 for definition) loans to our existing Commercial Finance customers. The window for providing these has now ended and loan repayments are now being received. We are also now accredited to support customers through the Recovery Loan Scheme.

The overall number of customers has increased by 0.6% from 1,536,602 at 31 December 2020 to 1,546,068, despite the closure of our OneBill product, which I address later in this report.

A changing experience for our employees

Our employees have also been significantly impacted by COVID-19 and the necessary restrictions imposed upon them. The majority continue to work from home, and we have closely monitored levels of engagement, motivation and wellbeing to ensure this way of working can continue to operate effectively. Employee surveys continue to show very positive results.

We continue to take the issue of wellbeing and mental health extremely seriously. We recently extended our offer of a "wellbeing hour", where employees can take time to participate in activities which promote good mental health and positivity, to being a monthly event. This is in addition to other initiatives, including our network of mental health first aiders across the organisation.

Our offices have continued to be open, adjusted to allow full social distancing. We are planning to move towards a hybrid working arrangement, on a phased basis, during the third quarter of this year. This will allow us to re-establish the advantages of an office environment alongside retaining the benefits that we have learned can arise from home working arrangements. We have consulted widely with employees over these changes and will be supporting them closely as we go through this transition.

Benefits of a diverse portfolio

One of the key benefits of our diverse business portfolio is the ability to shift our business mix to meet conditions, balancing capital, profitability and market considerations. This served us extremely well throughout the COVID-19 crisis.

This flexibility is also highly valuable as we move back into our more usual growth pattern. As restrictions ease, the markets that we operate in are at different stages of returning to normal. Our diversification allows us to take advantage of improving market conditions as they occur.

This is particularly evident in our Retail Finance portfolio, where we have seen growth of 5.5% in customer lending balances over the period to £694.3 million (31 December 2020: £658.4 million). This growth has started to accelerate, with the reopening of non-essential stores adding to our already strong online offering. The return of sporting events has also boosted this business, as we have resumed our funding of the purchase of season tickets.

Motor Finance has seen a slower return to growth. In the second quarter of 2021, we started to relax the additional credit restrictions that we put in place as the pandemic took hold. This will allow us to push forward in the prime and near-prime markets, taking advantage of the Motor Transformation Programme enhancements that were delivered in 2020.

We have also seen strong collections performance across our Consumer businesses, including in our debt management business, DMS.

Total core Business Finance lending balances have seen growth over the first half of 2021, closing at £1,296.0 million (31 December 2020: £1,282.6 million). Rebuilding pipelines of new lending for these businesses, as the pandemic recedes, will take more time than for our Consumer Finance business. For Real Estate Finance, opportunities in the residential investment market in Q1 2021 were limited, but the launch of a new product aimed at energy efficient properties has seen the pipeline grow in Q2 2021.

Commercial Finance is operating in a market where, since the onset of the crisis, utilisation of agreed facilities has contracted and greater complexity of deals in the market is causing protracted lead times. It is therefore taking us longer to build a consistent pipeline, although balances have started to grow again.

Supporting our lending businesses, our Savings team has continued to bring in funding in line with our asset growth and has managed the mix of deposits so as to improve our funding costs. Our ISA product has continued to perform well, with balances up 34% since the year-end to £173.4 million (31 December 2020: £129.6 million). Sight and Access deposits are also substantially up, to £109.6 million from £81.4 million at 31 December 2020, providing us with a more flexible and cost-effective funding base.

Evolving strategy

Following our recent management changes, including my appointment as CEO, work is now well underway to evolve the articulation of our strategy.

Preparation has started for our Capital Markets Day in November, where we will share additional detail in respect of our strategy, plans and businesses. Refined strategic objectives will then form part of our next Annual Report and Accounts.

We are progressing with plans to focus on our core businesses. Following the previous closures of our current account and personal lending products, we took the difficult decision in 2020 to close our OneBill product. This had been closed to new business since 2009 and had a declining customer base. The closure of accounts is now completed.

In addition, during the first half of 2021, we made the decision to sell two of our non-core books: Asset Finance and Consumer Mortgages, both of which have been in run-off for some time. Disposals of both portfolios were announced and completed in July 2021 and will have limited impact on STB operations as both loan books were outsourced to third party providers.

Outlook

We are looking forward with confidence on the back of our first half performance and the improving economic outlook. At the same time, we do have to recognise that further challenges may arise before we have seen the end of the pandemic impacts.

We have demonstrated our strengths and our effectiveness, both through times of high growth and in the most difficult of circumstances. Our team is strong, our capital and liquidity positions healthy, and our focus now aligned on our core businesses which all have clear growth potential. I am very excited about our prospects and look forward to setting out further details of our ambitions later in the year.

David McCreadie
Chief Executive Officer

4 August 2021

Our business model
How Secure Trust Bank does what it does

We lend to business and personal customers, funded primarily by customer deposits.

8 offices across the UK

1 Solihull
2 Cardiff
3 Manchester
4 Birmingham
5 Rotherham
6 Leeds
7 London
8 Reading

Our business units

Business Finance
Read more on pages **10 to 11**

Secured lending to businesses, relatively lower yield and lower risk.

Lending decisions are made on an individual transaction basis, using expert judgement and assessment against criteria set out in lending policies.

Real Estate
Support to small and medium-sized enterprises ('SMEs') in providing finance principally for residential development and residential investment.

Commercial
A full range of invoice financing solutions to UK businesses including invoice discounting and factoring.

Consumer Finance
Read more on pages **12 to 14**

Secured and unsecured lending, ranging from low to higher yield and risk.

Underwriting technology is used to make lending decisions quickly, resulting in high customer satisfaction scores while using strong risk management to minimise bad debt.

Retail
Lending products for in-store and online retailers to enable consumer purchases.

Debt management
Collection of debt on behalf of a range of clients as well as for Group companies.

Motor
Fixed rate, fixed term hire purchase arrangements, predominantly on used cars.

Non-core lending
Read more on page **15**

Asset
Funding to support SME businesses in acquiring commercial assets, such as building equipment, commercial vehicles and manufacturing equipment.

Mortgages
Lending to individuals who wish to purchase a property or remortgage their current property.

Both businesses were closed to new business, and were classified as Assets held for sale as at 30 June 2021. Both were sold to third parties during July 2021.

Savings
Read more on pages **16 to 17**

Savings
Deposits from personal customers, available online and serviced using internet banking.

Deposit accounts are promoted to meet funding needs and to broadly match the maturity profiles of lending.

Deposits range from instant access to seven-year bonds, including Cash ISAs.

Read more about how each of our divisions operate in our divisional reviews on pages **10 to 17**

What STB needs to operate

Our people

The Group had 940 employees (full-time equivalent) at 30 June 2021, (30 June 2020: 972).

Capital and liquidity

We need to ensure we have sufficient levels of capital and liquidity resources to support our growth and satisfy regulatory requirements.

Read more on pages **23 to 24**

Risk management

Risk management is key to our success. As well as strong management of credit risk and of capital and liquidity resources, we closely manage market risk, operational risk, conduct risk and regulatory risk.

Read more on pages **25 to 28**

Market awareness

We have built product teams with significant experience in our chosen markets as well as the wider macroeconomic and regulatory environment.

Read more on pages **18 to 19**

Our Banking licence

As a bank, we can raise deposits from customers, providing a flexible and accessible source of funding for our lending businesses. We can offer competitive deposit interest rates and have been successful in attracting deposits from a wide range of customers.

Read more on pages **16 to 17**

Flexible business model

We have grown our lending portfolio across a diverse range of sectors, allowing us to be flexible and focus growth in the most attractive areas.

How STB connects with customers

Digital

Our savings products are applied for and serviced through a highly commended online banking service.

Phone

UK-based customer support is available for our lending and savings customers.

Business partners

Motor lending is provided via UK motor dealers, brokers and internet introducers.

Real Estate and Commercial Finance business is sourced and supported both directly and via introducers.

Retailers

We operate an online e-commerce service to retailers, providing finance to customers of those retailers through the V12 Retail Finance brand.

The value we create for our stakeholders

Our shareholders

We deliver returns to shareholders by:

- Earning interest, fee and commission income from our lending businesses
- Maintaining efficient funding and operational cost levels
- Actively managing loan impairment levels through robust credit risk management

Read more in our Financial Review on pages **20 to 24**

Business and Retail

We make available a range of lending options to meet the demands of UK business, particularly from businesses needing working capital, house builders and motor dealers.

Our Retail Finance products enable retailers to offer credit facilities both in-store and online.

Private consumers

Across all products, we aim to deliver high levels of customer satisfaction.

Lending products are designed to meet the needs of the consumer, be affordable and easy to apply for.

The savings range offers competitive, simple products covered by the Financial Services Compensation Scheme up to the specified limits.

Wider stakeholders

The Group operates as a responsible business that benefits a wide range of stakeholders. Further details are provided in the Section 172 Statement.

Read more in the 2020 Annual Report

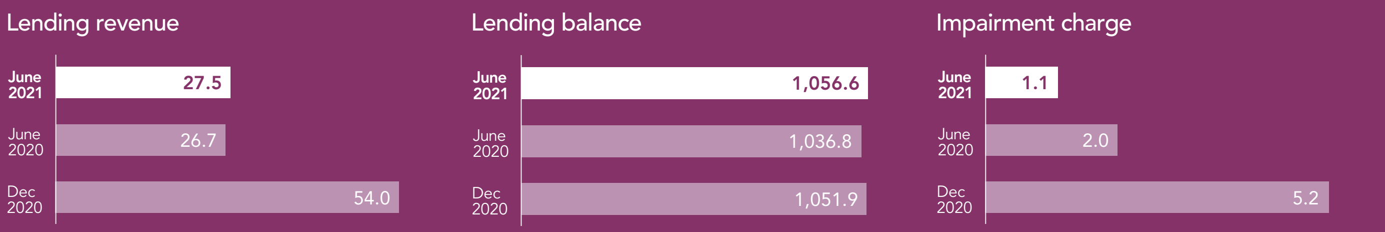
Interim business review

Business Finance

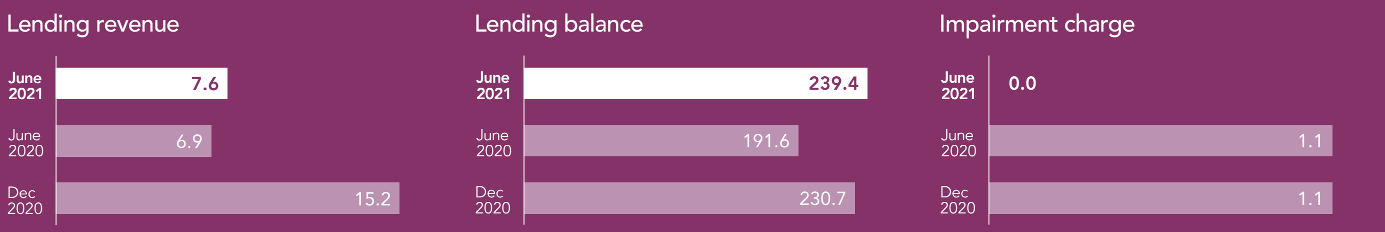
Focused on returning to growth and establishing a strong pipeline for new business.

Revenue and lending performance vs prior periods

Real Estate Finance



Commercial Finance



In the charts above, lending revenue and the impairment charge for December 2020 are those for the full year.

Real Estate Finance

The division supports SMEs in providing finance principally for residential development and residential investment.

2021 performance

With the continuation of lockdown into 2021, the business has remained focused on managing the impact on customers and maintaining strong risk management. Existing developments have continued to be funded, and the business has been able to successfully refinance a number of maturing deals. This has enabled balances to remain steady with the overall loan book being marginally above year-end balances, closing at £1,056.6 million. Revenue has therefore also been stable at £27.5 million in H1 2021 (H1 2020: £26.7 million).

Whilst we have seen an increase in credit risk on a small number of cases within the loan book, resulting in an increased level of balances in Stage 2 and 3 for IFRS 9 purposes, the book has continued to perform well, and, with the macroeconomic factors looking more favourable, the level of impairment charges in H1 2021 has been low at £1.1 million (H1 2020: £2.0 million).

Looking forward

With the economy now coming out of lockdown, the focus of the business will move towards rebuilding new business levels and on growing the business into the future. We will continue to manage our appetite in respect of new lending opportunities cautiously, focusing on niche areas of the market where we believe that returns and leverage are acceptable.

Commercial Finance

Commercial Finance specialises in providing a range of invoice financing solutions to UK businesses including invoice discounting and factoring.

2021 performance

Government support available for UK businesses during COVID-19 has ensured that high levels of market liquidity have driven down utilisation rates across the Asset Based Finance industry. However, the Commercial Finance book has performed well, with strong collections evidenced and the balance sheet returning to pre-pandemic levels. This has been largely driven by relatively low attrition and new business exceeding plan. As a result, revenue increased by 10% from £6.9 million in H1 2020 to £7.6 million, with loan balances increasing by £8.7 million since 31 December 2020.

In H1 2021, the British Business Bank approved the Company's application to offer clients support under the Recovery Loan Scheme ('RLS'); this is the successor to the Government's Coronavirus Business Interruption Loan Scheme ('CBILS') and Coronavirus Large Business Interruption Loan Scheme ('CLBILS'). As with CBILS and CLBILS, the Government guarantees up to 80% of each RLS facility.

Looking forward

As the Government support for the SME sector recedes, we expect liquidity levels in the market will also start to fall. We therefore anticipate that in H2 2021, clients will move to normal trading conditions and utilisation rates will then improve. On the back of this we would expect related income and returns to both increase.

Interim business review
continued

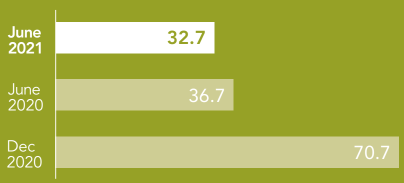
Consumer Finance

Strong consumer new business in the first half of 2021 signals recovery from pandemic.

Revenue and lending performance vs prior periods

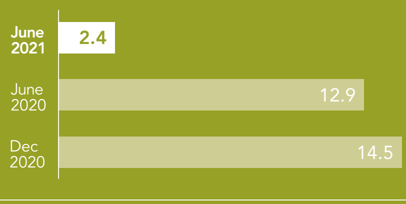
Retail Finance

Lending revenue



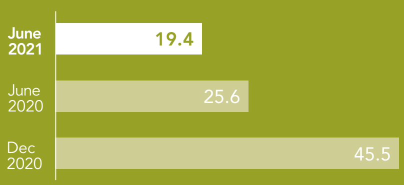
Lending balance

Impairment charge

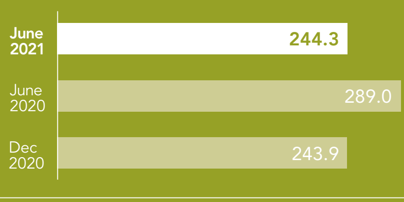


Motor Finance

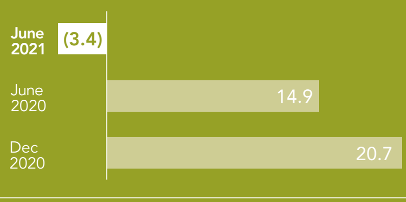
Lending revenue



Lending balance

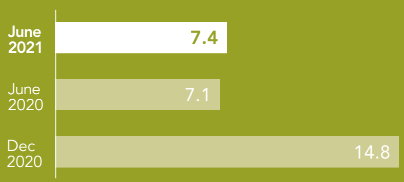


Impairment (credit)/charge



Debt Managers (Services) Limited

Lending revenue



Lending balance

Impairment (credit)/charge

In the charts above, lending revenue and the impairment (credit)/charges for December 2020 are those for the full year.

Retail Finance

Retail Finance includes lending products for use by in-store and online retailers to enable consumer purchases.

2021 performance

The Retail Finance business has been less heavily impacted by COVID-19, as its retailer partners have evolved sales and fulfilment practices to work more effectively within social distancing requirements. Since mid-April, the re-opening of stores has led to an increase in sales and loan volumes in Q2 2021 compared to Q1 2021. Online sales performances were less impacted with sports and leisure sectors showing consistent volumes year on year.

As a result, new lending volumes increased to £353.1 million (an increase of 22% on the equivalent period last year), with new business more heavily skewed towards Q2 2021. This has led to an increase of 5.5% in closing lending assets, to £694.3 million at the end of H1 2021 (31 December 2020: £658.4 million).

In terms of the three largest sub-markets, furniture and jewellery saw an increase in lending, with sports and leisure seeing a decrease. Despite the increase in volumes, market share (based on Finance & Leasing Association new business values within retail store and online credit) has remained relatively stable.

Revenue decreased by 10.9% to £32.7 million in H1 2021, compared to £36.7 million in H1 2020, which is linked to lower average lending balances.

Impairment charges decreased to £2.3 million (H1 2020: £12.9 million) and are mainly driven by lower provisioning under IFRS 9 for macroeconomic factors and improved customer credit quality linked to increased mix of interest free lending. Payment holidays granted to customers have largely unwound with only 376 customers remaining in a payment holiday at 30 June 2021 (17,056 customers in a payment holiday at 30 June 2020) which represents less than 0.05% of active customer numbers.

Looking forward

The Group plans to build further growth within its Retail Finance business as customer demand returns to normal. We will continue to invest in initiatives to further enhance systems capabilities, to ensure that quality of service to both retailers and customers is maintained or improved as well as generating operational efficiencies. This includes enhancements to telephony systems, customer management systems and increased functionality for customers using our online portal to help them self-serve their needs.

Interim business review
continued

Motor Finance

Consumer Finance is arranged through motor dealerships, brokers and internet introducers and involves fixed rate, fixed term hire purchase arrangements, predominantly on used cars.

2021 performance

The Motor Finance industry proved better able to cope with COVID-19 restrictions in H1 2021 versus H1 2020 with used cars purchased on finance, by consumers through the point of sale, up 161% in the three months to May 2021 over prior year*. Motor Finance new business volumes increased from £46.7 million (H1 2020) to £78.4 million in H1 2021. Despite this growth in new business, total loans and advances to customers remained stable compared to the end of 2020.

Revenue declined from £25.6 million in H1 2020 to £19.4 million in H1 2021 as a result of a smaller loan book in comparison to the end of H1 2020. The impact of payment holidays significantly reduced in H1 2021 and by the end of June 2021, only 16 Motor Finance customers (0.03%) remained in active COVID-19 payment holidays compared to 1.2% at 31 December 2020.

Impairment charges for the period have reduced significantly from £14.9 million in H1 2020 to a release of £3.4 million in H1 2021; the improvement is driven by a smaller loan book, lower credit defaults than expected, and an improving macro-economic outlook.

* Source: Finance and Leasing Association

Looking forward

Restricted lending criteria which were applied in H2 2020 and Q1 2021 have now been largely returned to pre-COVID-19 levels and the Motor Finance business is working with introducers and dealers to reinstate its position on lending panels.

We remain committed to expanding into the prime credit market under the V12 Vehicle Finance brand, to drive long-term receivables growth and sustainable return outcomes. The requisite system and business capabilities have been delivered, allowing us to take advantage of the opportunity to deliver prime and near prime products and services in the motor lending market as an innovative and technology-led funding provider.

The Motor Transformation Programme, which has seen £10.1 million already invested since the programme started in 2018, will now focus on further system enhancements and delivery of a PCP product.

Motor Finance is now well-placed to improve the credit quality of the portfolio, drive business growth and deliver stable earnings.

Debt Managers (Services) Limited

Debt Managers (Services) Limited ('DMS') is the Bank's debt collection business.

2021 performance

Revenue increased from £7.1million in H1 2020 to £7.4 million in H1 2021. A strong collections performance in H1 2021, where collections were 106% of forecast, led to an impairment credit of £0.8 million in the period. COVID-19 has not adversely impacted customers' ability to pay during the period. Costs were higher year on year due to higher levels of reconnection and litigation activity including some activity delayed from 2020.

Looking forward

Despite the strong start to 2021, there continues to be a level of uncertainty surrounding the customers' ability to pay once the Government support measures are withdrawn and the related potential impact on future collections performance. Furthermore, we are seeing UK financial institutions delaying their debt sales to later in 2021 or into 2022, which may delay the new business opportunities and revenue growth in 2021. DMS is improving its digital service to customers with the launch of a new customer portal in H2 2021, which will both improve the customer journey and reduce the cost to collect.

Non-core lending

Asset Finance

The Asset Finance business provides funding to support SME businesses in acquiring commercial assets, such as building equipment, commercial vehicles and manufacturing equipment.

2021 performance

The Group ceased originating loans in 2018, and the portfolio was recorded as Assets held for sale at the half year (£5.8 million) as we were in advanced negotiations for the sale of the residual portfolio. The portfolio continued to reduce in line with expectations during the half year, with income reducing accordingly. Impairments remained low with the book showing no signs of distress. During July 2021, the sale concluded, which will result in an immaterial impact to the income statement in H2 2021.

Consumer Mortgages

Consumer mortgages represents fixed rate mortgages provided to individuals, to purchase a property or remortgage their current property. We ceased originating new consumer mortgages in the first quarter of 2019.

2021 performance

The book continues to reduce, with balances at the end of the period of £56.6 million (31 December 2020: £77.7 million). Revenue for the period was £1.3 million, reducing in line with the loan book (H1 2020: £1.7 million).

The loan book was recorded as Assets held for sale at 30 June 2021 as we were in advanced stages of selling the portfolio. During July 2021, the sale completed, which will result in an immaterial impact to the income statement in H2 2021.

Looking forward

There are no plans to re-establish either Asset Finance or Consumer Mortgage products, with the Group's strategy focusing on core products.

Interim business review
continued

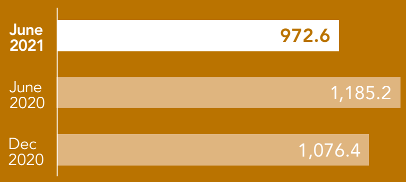
Savings

Stable funding base provided at reducing cost of funds, with high customer experience standards.

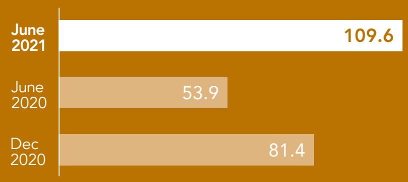
Revenue and lending performance vs prior periods

Notice deposits

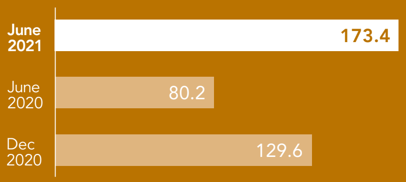
Fixed term savings



Sight/Access



Individual Savings Accounts



The Group attracts funding primarily via retail savings, offering individuals competitive, simple products, applied for and serviced online backed by the UK Financial Services Compensation Scheme.

2021 performance

During the first half of the year the Savings business has demonstrated the ability to attract and retain stable retail deposits in what is again becoming an increasingly competitive market, while providing support to continue to grow the business in a cost-effective way.

Throughout the period, we have focused on maintaining our high standards of customer service while continuing to keep our people safe in the Group's offices or working from home. Our track record of generating strong customer review scores has continued in 2021.

Having taken action in 2020, we continued to reduce our cost of retail deposits through the first six months of this year. We have again sought a balance of continuing to offer fair and competitive rates of interest to retain existing customers and stable retail deposits whilst reflecting market reductions.

New funding has been raised through the retail savings market as required. In H1 2021, over 9,500 accounts were opened because of new fund raising and customer retention. This generated £395 million of deposits, with the majority (£222 million) from new funding to accounts.

Our strategy to diversify our product range through our Fixed Rate ISA and Access products has continued to successfully lower our cost of new retail deposits. ISA balances have grown to £173.4 million (31 December 2020: £129.6 million) evidencing our continued growth in this market. Access deposits have similarly grown to £109.6 million (31 December 2020: £81.4 million), driven by customers' funds maturing into a competitive product.

Operational cost management is also a continued focus, including simplifying the operation in the first half of the year with the closure of two historic products – our OneBill account and a small book of non-personal savings products.

Looking forward

We anticipate increased competition in the savings market over H2 2021, with the potential for longer term fixed term savings rates to continue to increase.

We are well placed through our broad product range to access liquidity as required while managing the cost of funds. This will involve continuing to extend our Access and ISA accounts to a wider group of new customers.

In the second half of the year, we intend to continue streamlining our savings account opening process to improve the customer experience, reduce costs and further improve application conversion.

Longer term development of our digital proposition alongside our already strong customer experience will further support our ability to attract and retain customers, creating a platform to support the cost-effective growth of retail deposit balances, customers, and transactions. This will include consideration of the launch of mobile services and the use of Open Banking.

Economic and regulatory environment

Macroeconomic

Recent developments

There are encouraging signs that economic recovery is underway. Although uncertainty remains, the continuation of Government support alongside a very successful UK vaccine programme has brought the country closer to a more normal way of life. This is turn has brought about the beginning of an improvement in economic conditions.

The year began with the UK entering its third national lockdown, as COVID-19 cases rose sharply towards a significant spike. Hotel quarantine for travellers arriving into the UK from higher-risk countries came into force in February, and later that month, the UK Government published its roadmap for the easing of lockdown restrictions. The first three of the four steps set out in the roadmap happened on the expected dates, including the reopening of schools on 8 March.

The final step of the roadmap took place on 19 July. The rise of the delta variant brought a delay to the original 21 June date for this step. It is this and future variants, and the ability of current vaccines to mitigate their effects, that create most of the remaining uncertainty.

Although still well below pre-pandemic levels, UK GDP grew sharply in the second quarter of 2021, assisted by the reopening of many non-essential shops and services. This followed a fall of 9.8% in 2020. Certain sectors, such as hospitality and entertainment, remain subject to restrictions and are yet to experience an upturn in fortunes. CBI surveys show a significant improvement in business confidence over the second quarter.

It is too early to assess the long-term impact of the UK's trading arrangement with the European Union ('EU'), but imports and exports are currently much lower than previous levels. There is anecdotal evidence of supply chain issues in some sectors, though the overall impact on the economy has been modest to date. As the pandemic eases and Government restrictions are fully lifted, it will be easier to understand and manage the effects of Brexit on the economy.

Outlook

Economic forecasts are now highlighting much more positive outlooks than those produced in 2020. The June CBI forecast showed an expected 8.2% growth in GDP in 2021. Both this and the May Monetary Policy Committee ('MPC') report suggested that GDP would be back to pre-pandemic levels by the end of 2021. These projected growth levels were biased towards Government consumption in 2021, with business investment bouncing back strongly in 2022.

These forecasts also suggest imports and exports returning to more normal levels in 2022. The consensus among analysts is that the current disruption to trade with the EU will be temporary, though they are not clear on how long it will last.

Most of the Government schemes, including furlough, will come to an end in September. An increase in unemployment is still expected by many, though most forecasts show a later and less pronounced spike in unemployment than earlier views. The removal of furlough may also lead to labour market friction, with certain industries more impacted than others given the degree to which they have been affected by COVID-19. We have reflected this sentiment in the forward-looking assumptions that feed our IFRS 9 impairment models.

With the pandemic reducing consumer confidence, it being more difficult to purchase goods and services and the provision of support such as payment holidays, household savings are at a heightened level. It remains to be seen how much of these savings will be redirected to future expenditure. Survey results to date suggest that consumers' current intention is to retain these savings, and it is likely to require a longer period of a more normal environment before this position changes.

There are therefore strong grounds for optimism and the outlook is more optimistic than in December 2020 but there is a long way to go before any of us are able to predict future outcomes with a high degree of confidence. Uncertainty remains regarding the evolution of COVID-19 and its variants, the public health response including the ongoing need for restriction, and the reaction of households and businesses.

Government and regulatory

Recent developments

The March 2021 Budget included an extension to business support schemes, as well as furlough which as noted above now continues until September 2021. Other measures introduced included a capital allowance super deduction, aimed at stimulating business investment.

Since this Budget, with the vaccination programme successful and many of the lockdown restrictions lifted, the Government has not announced any further extensions to furlough or payment holidays. With the economy improving and business sentiment becoming more positive, such extensions are now unlikely.

The MPC has continued to hold interest rates at 0.1% and maintained its bond purchase programme. Although still a possibility, the likelihood of negative interest rates being introduced is lower than it was towards the end of 2020. Inflation is expected to rise in late 2021 and early 2022, driven by rising energy prices, which would further reduce this likelihood.

Outside of COVID-19 related matters, the PRA published its discussion paper DP1/21 on "a strong and simple prudential framework for non-systemic banks and building societies". This paper sets out ways in which the regulatory regime may be simplified for smaller firms over the coming years. We welcome the overall aims set out in the paper, as the regulatory burden can be a barrier to growth for smaller firms and prevent new entrants, thereby harming competition. We would urge caution that the new approach does not replace a complex regime with excessive conservatism, leading to higher capital and liquidity requirements for the firms affected.

Outlook

The longer-term actions of Government and regulators, as attention turns from the pandemic to rebuilding the economy, remain to be seen. The approaches taken to monetary, fiscal and regulatory policy as life returns to normal will shape the competitive environment in which we operate.

One such item is taxation. While planned increases to corporation tax are now known, the treatment of the banking surcharge going forward is not yet clear. The final decision made will impact the Group's capital planning and the level of deferred tax assets carried.

With the transition away from European regulation, the evolution of the regulatory regime in the UK will be of particular interest. It is expected that the Basel III reforms due from 1 January 2023 will be introduced in the UK, albeit modified by the "strong and simple" approach mentioned above. We are hopeful that these changes will make a genuine difference to competition in UK banking, by levelling the playing field between the large Internal Ratings-Based ('IRB') institutions and smaller firms who use the Standardised Approach.

Interim financial review

> Return to growth and an improving macroeconomic environment delivered record interim profits."

Profit and earnings

During the first six months of 2021, the Group saw a recovery back to growth in its core products. The benign arrears position, the improvement in quality in our consumer lending books, lower lending balances and a small improvement in forward looking macroeconomic indicators resulted in impairment charges falling significantly.

Statutory profit before tax increased from £5.1 million (H1 2020) to £30.7 million (H1 2021). As a result, **earnings per share** rose to 139.5 pence per share (H1 2020: 21.0 pence per share). Detailed disclosures of earnings per ordinary share are shown in Note 6.

Return on average equity increased from 3.0% (H1 2020) to 18.8%, and the **return on average assets** increased from 0.3% (H1 2020) to 2.0%. The components of the Group's profit are analysed in more detail in the sections below.

Operating income

Net interest income of £73.5 million fell 5.6% compared to H1 2020 driven by a reduction in average lending of 3.8% year on year. Motor Finance continued to be impacted by lockdowns, the closed books reduced by 45.6%, offset by growth in Business Finance and Retail Finance of 3.0%.

The Group continued to evolve the mix of the savings portfolio, with further reductions in more expensive term products resulting in interest expense of £15.5 million (H1 2020: £22.8 million), a reduction of 32.0% and a **cost of funds** of 1.4% (H1 2020: 1.9%).

The Group's **net interest margin** reduced slightly from 6.4% in H1 2020 to 6.3%, with the impact of lower levels of higher margin Motor Finance lending being mostly offset by the lower funding costs.

Net fee and commission income fell by 4.3% to £6.7 million (H1 2020: £7.0 million). This has been primarily driven by the closure of the OneBill product offset by the increase in Commercial Finance fee income.

Impairment credit

With an improving economic outlook after the peak of the pandemic, as well as an improving quality loan book and a reduction in the Motor lending book, this resulted in a significant impact on the levels of impairment provisions required. The Group released provisions resulting in an impairment credit for the period of £1.1 million (H1 2020: £31.5 million charge). As a result the **cost of risk** was (0.2%) for the period (H1 2020: 2.9%).

The majority of our impairment credit arises from the Consumer Finance businesses. The actual levels of defaults experienced over the period have been minimal, with very few customers remaining on payment holidays, and most of those previously on payment holidays returning to full payment.

Our IFRS 9 models use the correlation between macroeconomic variables, such as unemployment and house price indices, and historic credit losses to derive estimated future losses given a range of forecast variables. As described in more detail in Note 2, we now expect these variables to be more optimistic than was envisaged at the end of the year. They also reflect the extension of furlough arrangements announced by the Government earlier in the year.

The impairment credit includes the impact of applying expert credit judgement, resulting in overlays being adjusted to provision levels estimated using the Group's models. A breakdown of the (credit)/charge by product is shown in Note 3. Further analysis of the Group's loan book and its credit risk exposures is provided in Note 19.

Income statement	30 June 2021 £million	30 June 2020 £million	Movement %	31 Dec 2020 £million
Interest income and similar income	89.0	100.7	(11.6)	192.5
Interest expense and similar charges	(15.5)	(22.8)	32.0	(41.6)
Net interest income	**73.5**	**77.9**	**(5.6)**	**150.9**
Fee and commission income	7.0	7.5	(6.7)	16.0
Fee and commission expense	(0.3)	(0.5)	40.0	(0.8)
Net fee and commission income	**6.7**	**7.0**	**(4.3)**	**15.2**
Operating income	**80.2**	**84.9**	**(5.5)**	**166.1**
Net impairment credit/(charge) on loans and advances to customers	1.1	(31.5)	103.5	(51.3)
Gain/(losses) on modification of financial assets	0.7	(3.6)	119.4	(3.1)
Operating expenses	(51.3)	(44.7)	(14.8)	(91.6)
Profit before income tax	**30.7**	**5.1**	**502.0**	**20.1**
Income tax expense	(4.7)	(1.2)	(291.7)	(3.9)
Profit for the period	**26.0**	**3.9**	**566.7**	**16.2**
Basic earnings per share (pence)	139.5	21.0	564.3	87.0
Selected Key Performance Indicators				
Net interest margin	6.3%	6.4%	(1.6)	6.3%
Cost of funds	1.4%	1.9%	(26.3)	1.8%
Cost to income ratio	64.0%	52.7%	21.4	55.1%
Cost of risk	(0.2)%	2.9%	(106.9)	2.3%
Return on average equity	18.8%	3.0%	526.7	6.1%
Return on average assets	2.0%	0.3%	566.7	0.6%
CET 1 ratio	14.2%	13.5%	5.2	14.2%
Total capital ratio	16.5%	15.9%	3.8	16.4%

Certain KPIs represent alternative performance measures that are not defined or specified under IFRS. Definitions of the financial KPIs, their calculation and an explanation of the reasons for their use can be found in the Appendix to the Interim Report on page 54. In the narrative of this financial review, KPIs are identified by being in bold font.

Operating expenses

Costs have grown compared to the same period in 2020, reflecting a one-off VAT reclaim in 2020 (£1.7 million), continuing investment and readiness for growth.

These factors have contributed to operating expenses increasing to £51.3 million (H1 2020: £44.7 million). The Group's **cost to income ratio** declined from 52.7% (H1 2020) to 64.0%, and this ratio will improve as balance sheet growth brings additional revenues.

Distributions to shareholders

The Board has recommended an interim dividend of 20 pence per share, noting no dividend was recommended in June 2020 due to economic uncertainty. A final dividend for 2020 of 44 pence per share was paid on 21 May 2021.

Taxation

The effective statutory tax rate has reduced to 15.3% (H1 2020: 23.5%). The effective rate for the current period has decreased due to a deferred tax credit arising from a reassessment of the rates that the deferred tax asset would reverse out in future periods. The previous rates had assumed the level of corporation tax would remain at 19% but legislation has been enacted during the period so with effect from 1 April 2023 the corporation tax rate will increase to 25%. Further information is provided in Note 5.

Interim financial review
continued

Summarised balance sheet

	June 2021 £million	June 2020 £million	December 2020 £million
Assets			
Cash and balances at central banks	138.4	109.6	181.5
Loans and advances to banks	43.3	42.0	63.3
Debt securities	15.0	35.0	–
Loans and advances to customers[1]	2,389.9	2,377.5	2,358.9
Derivative financial instruments	1.8	5.9	4.8
Other assets	48.7	60.7	55.6
	2,637.1	**2,630.7**	**2,664.1**
Liabilities			
Due to banks	310.4	268.1	276.4
Deposits from customers	1,939.7	1,999.2	1,992.5
Tier 2 subordinated liabilities	50.8	50.7	50.8
Derivative financial instruments	4.0	7.2	6.1
Other liabilities	43.5	46.2	67.8
	2,348.4	**2,371.4**	**2,393.6**

1. Includes Assets held for sale of £62.4 million as at 30 June 2021.

Balance sheet

The assets of the Group fell slightly from year-end, closing at £2,637.1 million (31 December 2020: £2,664.1 million). The liabilities of the Group also fell marginally to £2,348.4 million (31 December 2020: £2,393.6 million). Deposits from customers decreased by £52.8 million and other funding increased by £34.0 million.

Loans and advances to customers

Loans and advances to customers include secured and unsecured loans and finance lease receivables.

All core divisions returned to growth or remained flat to 31 December 2020 (increase of 2.6%).

Loan origination in the year, increased by 28.1% to £624.9 million (H1 2020: £487.9 million). A significant proportion of this was generated by the Retail Finance business (£353.1 million) reflecting the re-opening of stores, and retailer partners adapting their sales processes as they emerge from the pandemic.

Further analysis of loans and advances to customers, by business, including a breakdown of the arrears profile of the Group's loan books, is provided in Note 19.

Debt securities & Due to banks

Debt Securities consist solely of sterling UK Government Treasury Bills ('T-Bill'). T-Bill holdings increased to £15.0 million (31 December 2020: nil), which are primarily used as collateral against the Term Funding Scheme ('TFS'), Term Funding Scheme with additional incentives for SMEs ('TFSME'), and drawings with the Bank of England.

At the end of H1 2021 the amount due to banks consisted primarily of drawings from the Bank of England TFS and TFSME Scheme. During the period, the Group repaid £40.0 million of TFS drawings, ahead of contractual maturity, and replaced this with drawings under TFSME. All TFS drawings are expected to be replaced with TFSME drawings ahead of contractual maturity in February 2022. In addition, £10.0 million of short term Indexed Long-Term Repo funding was repaid.

Deposits from customers

Customer deposits include Fixed Term Cash ISA, Term, Notice and Sight/Access deposits. During the period the Group closed the OneBill product and a small book of non-personal savings products.

Customer deposits reduced by 2.6% during the period and closed at £1,939.7 million (31 December 2020: £1,992.5 million). This, combined with the reduction in lending balances caused the **total funding ratio** to fall slightly to 108.1% (31 December 2020: 109.7%). As set out on page 24, the mix of the deposit book continues to shift from long-term fixed rate bonds into ISAs and Sight/Access accounts. This has brought about the improvement in **cost of funds** referred to on page 20.

Tier 2 subordinated liabilities

Tier 2 subordinated liabilities represent two £25 million tranches of 6.75% Fixed Rate Callable Subordinated Notes, including interest accrued. Further details of the note issuances are provided in Note 14. The Notes qualify as Tier 2 capital.

Management of capital

Our capital management policy is focused on optimising shareholder value over the long term. Capital is allocated to achieve targeted risk adjusted returns whilst ensuring appropriate surpluses are held above the minimum regulatory requirements.

Capital resources

Capital resources increased over the period, from £328.8 million to £340.2 million. This includes the impact of the interim dividend of £3.7 million. This was due to an increase in CET 1 capital, which was driven by retained earnings growth, as well as the impact of changes to the pre-COVID 19 IFRS 9 transitional relief as noted below.

Details of the Group's regulatory capital is provided in Note 15.

	30 June 2021 £million	30 June 2020 £million	31 December 2020 £million
Capital			
CET 1 capital	**293.7**	279.3	283.7
Total Tier 2 capital	**46.5**	50.0	45.1
Total capital	**340.2**	329.3	328.8
Total risk exposure	**2,065.0**	2,073.6	2,001.5

	30 June 2021 %	30 June 2020 %	31 December 2020 %
Capital ratios			
CET 1 capital ratio	**14.2**	13.5	14.2
Total capital ratio	**16.5**	15.9	16.4
Leverage ratio	**10.9**	10.3	10.4

The Group has elected to adopt the IFRS 9 transitional rules. For 2021, this allows for 50% (2020: 70%) of the initial IFRS 9 transition adjustment, net of attributable deferred tax, to be added back to eligible capital. The same relief is allowed in respect of increases in provisions since 1 January 2018 to 31 December 2019, except where these provisions relate to defaulted accounts. The same relief is allowed for increases in provisions since 1 January 2020, however this is applied at 100% (2020: 100%), which was introduced as a response to the COVID-19 pandemic. All transitional relief will taper off by 31 December 2024.

Capital requirements

The Total Capital Requirement, set by the PRA, includes both the calculated requirement derived using the standardised approach and the additional capital derived in conjunction with the Group's Internal Capital Adequacy Assessment Process ('ICAAP'). In addition, capital is held to cover generic buffers set at a macroeconomic level by the PRA.

Risk weighted assets have increased slightly since year end, as a consequence of the growth in Retail Finance and Commercial Finance, and a change in the mix of business within Real Estate Finance. In addition the operational risk calculation has been updated resulting in increased risk weighted assets. The total risk exposure has increased from £2,001.5 million to £2,065.0 million. The capital conservation buffer and countercyclical buffer remain unchanged from year end, being 2.5% and 0% respectively.

	30 June 2021 £million	30 June 2020 £million	31 December 2020 £million
Total Capital Requirement	**195.6**	207.6	191.5
Capital conservation buffer	**51.6**	51.8	50.0
Countercyclical buffer	**–**	–	–
Total	**247.2**	259.4	241.5

Interim financial review
continued

Liquidity

We continued to hold significant surplus liquidity over the minimum requirements throughout the period, managing liquidity by holding High Quality Liquid Assets ('HQLA') and utilising predominantly retail funding from customer deposits. Total liquid assets decreased from £232.1 million at 31 December 2020 to £185.9 million, primarily due to increased funding requirements for Commercial Finance drawdowns in early 2021.

	30 June 2021	30 June 2020	31 December 2020
Liquid assets			
Aaa – Aa3	152.1	143.0	180.5
A1 – A3	28.7	24.7	46.5
Unrated	5.1	5.1	5.1
	185.9	**172.8**	**232.1**

We continued to attract customer deposits to support balance sheet growth. We continue to focus on attracting ISA and Access account funding, with less emphasis on retaining more expensive fixed term bonds. The composition of customer deposits is shown in the table below.

	30 June 2021	30 June 2020	31 December 2020
Customer Deposits			
Fixed term	50%	59%	54%
Notice	35%	34%	35%
Sight/Access	6%	3%	4%
ISA	9%	4%	7%
	100%	**100%**	**100%**

Secure Trust Bank PLC is a participant in the Bank of England's Sterling Money Market Operations under the Sterling Monetary Framework and has drawn £303.0 million under these schemes, increasing by £30.0 million since 31 December 2020. The Group has no liquid asset exposures outside of the United Kingdom and no amounts that are either past due or impaired.

Management of liquidity

The Group uses a number of measures to manage liquidity. These include:

- The Overall Liquidity Adequacy Rule ('OLAR'), which is the Board's view of the Group's liquidity needs as set out in the Board approved Internal Liquidity Adequacy Assessment Process ('ILAAP').
- The Liquidity Coverage Ratio ('LCR'), which is a regulatory measure that assesses net 30-day cash outflows as a proportion of HQLA.
- Total funding ratio, as defined in the Appendix to the Interim report.
- High Quality Liquid Assets ('HQLA') are held in the Bank of England Reserve Account and UK Treasury Bills. For LCR purposes the HQLA excludes UK Treasury Bills which are encumbered to provide collateral as part of the Group's TFS and TFSME drawings with the Bank of England. On this basis, the HQLA at the end of H1 2021 was £128.3 million (31 December 2020: £172.8 million).

Risk management and principal risks

Risk overview

The Group operates an Enterprise-wide Risk Management Framework which governs the process for identifying and managing risk across its business. The key risks facing the Group, which it defines as principal risks, are detailed below, alongside an up-to-date assessment. Climate Change Risk and Financial Crime have been added as these are key areas of focus for the Group in 2021.

Further details of the Group's risk management frameworks, including risk appetite statements and governance can be found on the Group's website: www.securetrustbank.com.

Risk	Description
Credit Risk	The risk that a counterparty will be unable to pay amounts in full when they fall due
Operational Risk	The risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than the risks identified in this table
Conduct Risk	The potential for customers (and the business) to suffer financial loss or other detriment through the actions and decisions made by the business and its staff
Regulatory Risk	The risk that the Group fails to be compliant with all relevant regulatory requirements
Financial Crime Risk	The risk that the Group fails to prevent the facilitation of financial crime by not having effective systems and controls and does not meet regulatory requirements
Capital Risk	The risk that the Group will have insufficient capital resources to support the business
Liquidity and Funding Risk	The risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset
Market Risk	The risk that the value of, or revenue generated from, the Group's assets and liabilities is impacted as a result of market movements, predominantly interest rates
Climate Change Risk	The risks arising through climate change impacting the Group and our strategy

Changes to the Group's risk profile

Changes to the Group's risk profile since the position set out in the 2020 Annual Report and Accounts are set out below.

Update on impact of COVID-19 and UK withdrawal from European Union

The economic impact of COVID-19 on the UK economy has been lessened by the high levels of Government support and the direct impact on the Group's lending portfolio has been low from a credit risk perspective. Whilst, there is a high level of uncertainty around the UK economy's exit from lockdown controls and winding down of Government support packages, the credit portfolio remains well positioned entering into this period of uncertainty.

Further context in respect of the COVID-19 pandemic can be found on pages 18 to 19.

The direct impact to the Group in relation to the withdrawal from the European Union remains limited. The Group is exposed to any wider macroeconomic impacts, although at this stage these appear limited and expectations remain that there will be limited impact on the Group from the UK's withdrawal from European Union.

Credit Risk

Consumer Finance Credit Risk: Improving

The Group is looking forward with cautious optimism, with the forecast views on unemployment being far less severe than feared at this point last year. Credit tightening implemented during the early stages of the pandemic have been relaxed in a phased manner through the period. The small number of remaining payment holidays are due to expire by the end of July in line with expectation and regulatory guidance. No material impact on arrears has been experienced in either consumer business as a result of payment holidays and both businesses have seen lower than expected IFRS 9 provision charges for the period.

New business volumes have increased significantly for the point of sale Retail Finance portfolio in the first half of 2021, particularly in the second quarter driven in part by the reopening of non-essential retail outlets on 12 April 2021.

Risk management and principal risks continued

Business Finance Credit Risk: Stable

The Business Finance portfolio has seen lending balances increase slightly during the period, reflecting a continuation of the selective approach to new business acquisition with limited redemptions occurring. In keeping with the trend of declining forbearance requests seen during Q4 2020, the Real Estate Finance business received negligible volumes of new forbearance requests during H1 2021, with the few received generally seeking a short-term variation from capital and interest payments to interest only. As was the case at the end of the year, we have not seen any material change to the average loan-to-value profile of the portfolio, at circa 60%.

Having become an accredited provider of CBILS and CLBILS in 2020, our Commercial Finance business also became an accredited RLS lender during the period as the CBILS and CLBILS application windows drew to a close. The existing CBIL/CLBIL portfolio has performed in line with expectations and has already seen a number of early redemptions. To date, only one RLS facility application has been approved and drawn, and discussions with other potential recipients remain ongoing.

Operational Risk: Stable

The Group's operational risk process and standards are defined in a formal Operational Risk Policy and Framework, which is aligned to the Basel Committee on Banking Supervision criteria for the sound management of operational risk.

Key risk themes of operational risk focus in 2021 include:

- COVID-19 – in response to the COVID-19 crisis, the Group instigated its crisis management processes and has been closely managing and monitoring the operational impacts and risks over 2020 and 2021. A number of key changes to our operating practices have been introduced to enable the Group to continue to serve our customers across all our business units, protect our staff and ensure the continued success and resilience of our business. These have been closely monitored to ensure our control framework remains robust in managing all operational risks. This will continue to be a key area of focus as the implications of this pandemic evolves, including how we transition to more established working practices as restrictions are lifted.
- Operational Resilience – The Group is progressing well with the implementation of the recently published Operational Resilience requirements and this will remain a priority for the Group.
- Regulatory Reporting – The Group has identified a number of improvements that are required to be made to the controls over the production of some of our Regulatory Reports. Delivery of these enhancements is being closely monitored and managed under a formal project.
- Information Communications Technology (ICT) and Security Risks – The Group recognises that threats to our ICT services and security are continuously evolving and can result in significant adverse risk to any financial institution's customers, operational capability and prudential viability. The Group continues to invest in and improve its robust framework of controls to identify, protect, respond to and recover from emerging cyber, supply chain and technology threats, adapting its strategy in response to observable changes in the threat landscape. As a result we are confident our risk continues to be managed within appetite.
- Supplier Management – The Group recognises the need to effectively manage and monitor its third-party suppliers and has invested in additional resource to strengthen our supplier governance capabilities and develop an enhanced control framework.

Conduct Risk: Stable

In response to the pandemic COVID-19, the Group responded quickly to enable us to continue to serve customers across all business units, this included implementing regulatory guidance on consumer credit and mortgages, for example regarding forbearance.

The Group continued to operate within overall risk appetite, however, some pressure was seen on some individual conduct risk metrics for example contact centre service levels.

There continues to be monthly review and challenge of Key Risk Indicators across the business, with the Group Executive Committee having oversight of the first line activities for assurance to senior management that the first line of defence is identifying conduct risks when they arise and taking appropriate actions to mitigate them.

Training on Conduct Risk is provided to new starters, with an eLearning module completed by all other employees during the period.

Regulatory Risk: Stable

In the period, there was an increased level of engagement with the regulators, applications were submitted for changes to senior management functions, we continued to provide regulatory reporting related to COVID-19, a number of information requests were received from the Financial Conduct Authority portfolio teams and notifications were submitted regarding material outsourcing.

We delivered changes to implement new regulations for breathing space and regulatory guidance on consumer credit and mortgages resulting from the pandemic in Retail Finance, Motor Finance, Debt Management Services and Consumer Mortgages.

The Group will continue to work on new and revised regulations and legislation that will come into force over the next 18 months and beyond, including operational resilience and outsourcing.

Financial Crime: Stable

The inherent risk of the Group has not materially changed over the period and investment continues to be made in enhancing controls. This remains an important area of focus for the Group and as such has now been separately reflected as risk in its own right rather than being within operational risk.

Capital Risk: Stable

The Group's balance sheet and total risk exposure has increased since the beginning of the year as the Group returns to growth post COVID-19 restrictions. The Group continues to benefit from the capital relief that has been provided by the PRA in respect of IFRS 9 provisions.

The Group continues to meet its capital ratio measures. Details of the CET 1, total capital ratio and leverage ratio are included in the financial review on page 23. The Group continues to explore options to raise additional forms of capital as and when required.

Risk management and principal risks
continued

Liquidity and Funding Risk: Stable

The Group has maintained its liquidity and funding ratios in excess of regulatory and internal risk appetite requirements throughout the first half of the year. The Group continues to hold significant levels of high-quality liquid assets and there is no material risk that liabilities cannot be met as they fall due.

As at 31 December 2020, the Group had drawn £263.0 million of borrowing under the Bank of England's Term Funding Scheme. In the first half of 2021 £40.0 million of TFS drawings had been repaid, ahead of contractual maturity, and replaced with drawings under the Bank of England's TFSME. All TFS drawings are expected to be replaced with TFSME drawings ahead of contractual maturity in February 2022.

Market Risk: Stable

The Group maintains a broadly matched asset and liability profile. Any significant residual interest rate risk positions are hedged using interest rate swaps, all variable rate legs are linked to SONIA. The hedges are hedge accounted for through fair value or cash flow hedge relationships and are highly effective.

The Group has remained within risk appetite throughout the year and continues to enhance its risk identification, measurement, and mitigation for Interest Rate Risk in the Banking Book (IRRBB). IRRBB is monitored by reference to the following Board Risk Appetite measures under numerous interest rate scenarios:

- Earnings at Risk ('EaR')
- Market Value Sensitivity ('MVS'); and
- Economic Value of Equity ('EVE')

The Group has a small exposure to foreign exchange risk through its Commercial Finance lending, all exposures are appropriately hedged.

The Group does not operate a trading book.

Climate Change Risk: Stable

A detailed report on the key risks the Group faces in relation to climate change was included in the 2020 year-end report. Since then, the Group has made good progress in a number of areas outlined below and remains on-track to meet the regulatory requirements in relation to Climate Change Risk and associated Task Force on Climate-related Financial Disclosures ('TCFD'):

- Established key data sources and undertaken focused stress test scenarios to enable us to accurately assess the key risks.
- Embedded onboarding and ongoing controls to mitigate key risks.
- Developed a risk appetite framework with supporting metrics and reporting.
- Improved awareness across the organisation and with executive teams.

Whilst our overall current assessment is that the associated risks are not material, we recognise the significance of this area of risk and will continue to improve our responses in 2021 and beyond.

Condensed consolidated statement of comprehensive income

	Note	**June 2021 Unaudited £million**	June 2020 Unaudited £million	December 2020 Audited £million
Income statement				
Interest income and similar income	3	89.0	100.7	192.5
Interest expense and similar charges		(15.5)	(22.8)	(41.6)
Net interest income		**73.5**	**77.9**	**150.9**
Fee and commission income	3	7.0	7.5	16.0
Fee and commission expense		(0.3)	(0.5)	(0.8)
Net fee and commission income		**6.7**	**7.0**	**15.2**
Operating income		**80.2**	**84.9**	**166.1**
Impairment credit/(charge) on loans and advances to customers	8	1.1	(31.5)	(51.3)
Gains/(losses) on modification of financial assets	4	0.7	(3.6)	(3.1)
Operating expenses		(51.3)	(44.7)	(91.6)
Profit before income tax		**30.7**	**5.1**	**20.1**
Income tax expense	5	(4.7)	(1.2)	(3.9)
Profit for the period		**26.0**	**3.9**	**16.2**
Other comprehensive income				
Items that will not be reclassified to the income statement				
Revaluation reserve		–	–	(0.2)
Items that may be reclassified to the income statement				
Cash flow hedges:				
Fair value movements taken to reserves		(0.1)	–	–
Other comprehensive income for the period, net of income tax		(0.1)	–	(0.2)
Total comprehensive income for the period		**25.9**	**3.9**	**16.0**
Profit attributable to:				
Equity holders of the Company		**26.0**	**3.9**	**16.2**
Total comprehensive income attributable to:				
Equity holders of the Company		**25.9**	**3.9**	**16.0**
Earnings per share for profit attributable to the equity holders of the Company during the period (pence per share)				
Basic earnings per share	6	**139.5**	**21.0**	**87.0**
Diluted earnings per share	6	**136.8**	**20.8**	**85.2**

Condensed consolidated statement of financial position

	Note	**June 2021 Unaudited £million**	June 2020 Unaudited £million	December 2020 Audited £million
ASSETS				
Cash and balances at central banks		138.4	109.6	181.5
Loans and advances to banks		43.3	42.0	63.3
Debt securities		15.0	35.0	–
Loans and advances to customers	7	2,327.5	2,377.5	2,358.9
Fair value adjustment for portfolio hedged risk		2.4	7.3	5.7
Derivative financial instruments		1.8	5.9	4.8
Assets held for sale	7, 8, 9	62.4	–	–
Investment properties		4.3	4.8	4.3
Property, plant and equipment		9.4	11.2	9.9
Leasing right-of-use assets		2.5	3.4	2.9
Intangible assets		7.0	8.5	7.7
Current tax asset		–	1.0	–
Deferred tax assets		6.5	6.6	5.9
Other assets		16.6	17.9	19.2
Total assets		**2,637.1**	**2,630.7**	**2,664.1**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	10	310.4	268.1	276.4
Deposits from customers	11	1,939.7	1,999.2	1,992.5
Fair value adjustment for portfolio hedged risk		0.6	6.5	4.7
Derivative financial instruments		4.0	7.2	6.1
Current tax liabilities		2.5	–	1.0
Lease liabilities		3.6	4.3	3.9
Other liabilities		34.8	34.5	56.3
Provisions for liabilities and charges	12	2.0	0.9	1.9
Subordinated liabilities	14	50.8	50.7	50.8
Total liabilities		**2,348.4**	**2,371.4**	**2,393.6**
Equity attributable to owners of the parent				
Share capital	20	7.5	7.4	7.5
Share premium	20	82.2	82.2	82.2
Cash flow hedge reserve		(0.1)	–	–
Revaluation reserve		0.9	1.1	0.9
Retained earnings		198.2	168.6	179.9
Total equity		**288.7**	**259.3**	**270.5**
Total liabilities and equity		**2,637.1**	**2,630.7**	**2,664.1**

Condensed consolidated statement of changes in equity

Unaudited	Share capital £million	Share premium £million	Cash flow hedge reserve £million	Revaluation reserve £million	Retained earnings £million	Total £million
Balance at 1 January 2021	**7.5**	**82.2**	**–**	**0.9**	**179.9**	**270.5**
Total comprehensive income for the period						
Profit for the six months ended 30 June 2021	–	–	–	–	26.0	26.0
Other comprehensive income, net of income tax						
Net movement in cash flow hedge reserve	–	–	(0.1)	–	–	(0.1)
Total other comprehensive income	**–**	**–**	**(0.1)**	**–**	**–**	**(0.1)**
Total comprehensive income for the period	**–**	**–**	**(0.1)**	**–**	**26.0**	**25.9**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	–	–	–	–	(8.2)	(8.2)
Share-based payments	–	–	–	–	0.5	0.5
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(7.7)**	**(7.7)**
Balance at 30 June 2021	**7.5**	**82.2**	**(0.1)**	**0.9**	**198.2**	**288.7**
Unaudited						
Balance at 1 January 2020	**7.4**	**81.2**	**–**	**1.1**	**164.4**	**254.1**
Total comprehensive income for the period						
Profit for the six months ended 30 June 2020	–	–	–	–	3.9	3.9
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**3.9**	**3.9**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares	–	1.0	–	–	–	1.0
Share-based payments	–	–	–	–	0.5	0.5
Tax on share-based payments	–	–	–	–	(0.2)	(0.2)
Total contributions by and distributions to owners	**–**	**1.0**	**–**	**–**	**0.3**	**1.3**
Balance at 30 June 2020	**7.4**	**82.2**	**–**	**1.1**	**168.6**	**259.3**

Condensed consolidated statement of changes in equity continued

Audited	Share capital £million	Share premium £million	Revaluation reserve £million	Retained earnings £million	Total £million
Balance at 1 January 2020	**7.4**	**81.2**	**1.1**	**164.4**	**254.1**
Total comprehensive income for the period					
Profit for the 12 months ended 31 December 2020	–	–	–	16.2	16.2
Other comprehensive income, net of income tax					
Revaluation reserve	–	–	(0.4)	–	(0.4)
Tax on revaluation reserve	–	–	0.2	–	0.2
Total other comprehensive income	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Total comprehensive income for the period	**–**	**–**	**(0.2)**	**16.2**	**16.0**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Issue of ordinary shares	0.1	1.0	–	–	1.1
Share-based payments	–	–	–	(0.3)	(0.3)
Tax on share-based payments	–	–	–	(0.4)	(0.4)
Total contributions by and distributions to owners	**0.1**	**1.0**	**–**	**(0.7)**	**0.4**
Balance at 31 December 2020	**7.5**	**82.2**	**0.9**	**179.9**	**270.5**

Condensed consolidated statement of cash flows

	Note	June 2021 Unaudited £million	Restated June 2020 Unaudited £million	December 2020 Audited £million
Cash flows from operating activities				
Profit for the period		26.0	3.9	16.2
Adjustments for:				
Income tax expense		4.7	1.2	3.9
Depreciation of property, plant and equipment		0.7	0.7	1.4
Depreciation of right-of-use assets		0.4	0.5	0.7
Loss on disposal of intangible assets		–	–	0.5
Amortisation of intangible assets		0.8	1.0	2.0
Impairment (credit)/charge on loans and advances to customers		(1.1)	31.5	51.3
(Gains)/losses on modification of financial assets		(0.7)	3.6	3.1
Share-based compensation		0.5	0.5	(0.3)
Revaluation loss and impairment		–	–	1.1
Lease interest charged		–	0.1	0.1
Amortisation of subordinated liabilities issue costs		–	0.1	0.2
Provisions for liabilities and charges		0.2	0.2	1.2
Cash flows from operating profits before changes in operating assets and liabilities		31.5	43.3	81.4
Changes in operating assets and liabilities:				
– loans and advances to customers		(29.2)	37.5	37.5
– loans and advances to banks and balances at central banks		1.9	(4.6)	(3.5)
– other assets		2.9	(0.4)	(1.9)
– deposits from customers		(52.8)	(34.4)	(27.8)
– provisions for liabilities and charges		(0.1)	–	(0.7)
– other liabilities		(21.5)	6.9	15.4
Income tax paid		(3.8)	(4.8)	(4.8)
Net cash (outflow)/inflow from operating activities		**(71.1)**	**43.5**	**95.6**
Cash flows from investing activities				
Redemption of debt securities		20.0	80.1	130.0
Purchase of debt securities		(35.0)	(90.1)	(105.0)
Purchase of property, plant and equipment		(0.2)	(0.6)	(0.8)
Purchase of intangible assets		(0.4)	(0.5)	(1.1)
Net cash (outflow)/inflow from investing activities		**(15.6)**	**(11.1)**	**23.1**
Cash flows from financing activities				
Drawdown/(repayment) of amounts due to banks		34.0	(40.0)	(31.7)
Issue of shares	20	–	1.0	1.1
Dividends paid		(8.2)	–	–
Repayments of lease liabilities		(0.3)	(0.6)	(1.0)
Net cash inflow/(outflow) from financing activities		**25.5**	**(39.6)**	**(31.6)**
Net (decrease)/increase in cash and cash equivalents		**(61.2)**	**(7.2)**	**87.1**
Cash and cash equivalents at start of period		232.1	145.0	145.0
Cash and cash equivalents at end of period	20	**170.9**	**137.8**	**232.1**

Consistent with the December 2020 Annual Report and Accounts, the June 2020 cash flow statement above has been restated to include provisions for liabilities and charges as a separate item to movements in other liabilities, and June 2020 loans and advances to banks and balances at central banks and other assets have also been restated to include movements in restricted cash (see Note 20). This has reduced the net decrease in cash and cash equivalents at June 2020 by £3.0 million, and cash and cash equivalents at end of period by £12.2 million.

Notes to the interim report

1. Accounting policies

The principal accounting policies applied in the preparation of this interim report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

1.1 Reporting entity

Secure Trust Bank PLC is a public limited company incorporated in England and Wales in the United Kingdom (referred to as 'the Company') and is limited by shares. The Company is registered in England and Wales and has the registered number 00541132. The registered address of the Company is One Arleston Way, Solihull, West Midlands, B90 4LH. The interim report as at and for the period ended 30 June 2021 comprise Secure Trust Bank PLC and its subsidiaries (together referred to as 'the Group' and individually as 'subsidiaries'). The Group is primarily involved in banking and financial services.

1.2 Basis of presentation

The interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006, and has been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted International Financial Reporting Standards and IAS 34 Interim Financial Reporting.

A copy of the statutory accounts for the year ended 31 December 2020 has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified and did not contain statements under Section 498(2) or (3) of the Companies Act 2006. The results for the periods ending 30 June 2021 and 30 June 2020 are unaudited. The results for the year ending 31 December 2020 are audited.

The interim report has been prepared under the historical cost convention, as modified by the valuation of derivative financial instruments, investment properties and land and buildings at fair value. The interim report is presented in pounds sterling, which is the functional and presentational currency of the entities within the Group.

The preparation of the interim report in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the interim report are disclosed in Note 2.

The Directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The Directors confirm they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing the accounts.

In assessing the Group as a going concern, the Directors have given consideration to the factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, as set out in the interim business report. The Group uses various short and medium-term forecasts to monitor future capital and liquidity requirements and these include stress testing assumptions to identify the headroom on regulatory compliance measures. A range of scenarios were applied to assess capital and liquidity positions in adverse conditions in order to demonstrate the continued adoption of the 'going concern' basis. This work has demonstrated that the Group continues to meet its capital and liquidity requirements in the stress scenarios considered.

1.3 Accounting policies

The accounting policies applied in preparing the unaudited condensed interim report are consistent with those used in preparing the audited statutory financial statements for the year ended 31 December 2020, other than as stated below.

Following a recent agenda decision by the IFRS Interpretations Committee 'Configuration or Customisation Costs in a Cloud Computing Arrangement', which clarified the requirements of IAS 38 Intangible Assets, only the costs of configuration and customisation services incurred by the Software-as-a-Service ('SaaS') provider or an agent of the SaaS provider, which are not distinct from the SaaS access, should be treated as a prepayment and expensed to the income statement on a straight-line basis over the term of the underlying hosting contract. All other configuration and customisation costs should be expensed to the income statement as incurred. Previously, all configuration and customisation costs relating to SaaS contracts, which did not meet the capitalisation requirements of IAS 38 Intangible assets, were prepaid.

As this is a clarification of existing requirements this will result in a change in accounting policy to be applied retrospectively with restatement of the comparative period(s) in accordance with IAS 8. This is effective immediately, but an entity is entitled to sufficient time to make that determination and implement any necessary accounting policy change. Accordingly, no adjustments have been made to the results for the period ended 30 June 2021, but it is expected that as at 31 December 2021, prepayments and opening retained earnings at 1 January 2021 will be reduced approximately by between £3 million to £4 million. It is not expected to have a material impact on the income statement for the year ended 31 December 2021.

1.3.1 Taxation

Taxes on profits in interim periods are accrued using the tax rate that will be applicable to expected total annual profits.

1.3.2 Standards in issue but not yet effective

There are no new standards in issue but not yet effective that have a material effect on the Group.

2. Critical judgements and estimates

2.1 Judgements

No critical judgements have been identified.

2.2 Key sources of estimation uncertainty

Estimations which could have a material impact on the Group's financial results and are therefore considered to be key sources of estimation uncertainty are outlined below. The potential impact of COVID-19 has been considered in determining reasonably possible changes in key sources of estimation uncertainty which may occur in the next 12 months.

2.2.1 Impairment charge on loans and advances to customers

As discussed in Note 1.8 of the Group's Annual Report for the year ended 31 December 2020, expected credit losses ('ECLs') are calculated by multiplying three main components: the probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD'). These variables are derived from internally developed statistical models and historical data, adjusted to reflect forward-looking information. The determination of both the PD and LGD require estimation which is discussed further below.

2.2.2 Probability of default ('PD')

As set out in Note 1.8 of the Group's Annual Report for the year ended 31 December 2020, Exogenous, Maturity, Vintage ('EMV') modelling is used in the production of forward-looking lifetime PDs in the calculation of ECLs. As the Group's performance data does not go back far enough to capture a full economic cycle, the proxy series of the quarterly rates of write offs for UK unsecured lending data is used to build an economic response model ('ERM') to incorporate the effects of recession. Even using proxy series data, the potentially extreme economic impact brought about by COVID-19 cannot be accurately correlated to historic data, requiring the use of model overlays.

The portfolios for which external benchmark information represents a significant input into the measurement of ECLs are Real Estate Finance, Asset Finance and Commercial Finance. The benchmarks used for all three portfolios are Standard & Poor's Ratings and Bank of England UK Possessions as proxy data for ERM.

With the exception of the Motor Finance and Retail Finance portfolios, sensitivity to reasonably possible changes in PD is not considered to result in material changes in the ECL allowance. A 10% change in the PD for Motor Finance would immediately impact the ECL allowance by £1.4 million (June 2020: 10%, £1.7 million, December 2020: 10%, £2.2 million) and a 20% change in the PD for Retail Finance would immediately impact the ECL allowance by £3.8 million (June 2020: 10%, £2.2 million, December 2020: 20%, £5.0 million). During the year, there was a 11% (December 2020: 3%) change in PD for Motor Finance, and a 14% (December 2020: 20%) change in PD for Retail Finance.

The ECL allowance held for the Business Finance, Consumer Mortgages and Other portfolios remains low. Reasonably possible changes in the PD for these portfolios are not considered to result in a material change in the ECL allowance.

2.2.3 Loss given default ('LGD')

The Group's policy for the determination of LGD is outlined in Note 1.8 of the Group's Annual Report for the year ended 31 December 2020.

With the exception of the Motor Finance portfolio, the sensitivity of the ECL allowance to reasonably possible changes in the LGD is not considered material. For the Motor Finance portfolio a 20% change in the LGD is considered reasonably possible due to potential difficulties in the vehicle collection process brought about by COVID-19. A 20% change in the vehicle recovery rate assumption element of the LGD for Motor Finance would impact the ECL allowance by £4.2 million (June 2020: £2.5 million, December 2020: £1.9 million).

2.2.4 Incorporation of forward-looking data

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of expected credit loss by developing a number of potential economic scenarios and modelling expected credit losses for each scenario. Further detail on this process is provided in Note 1.8 of the Group's Annual Report for the year ended 31 December 2020.

Notes to the interim report continued

2. Critical judgements and estimates continued

The macroeconomic scenarios used at 30 June 2021 were internally developed, having regard to externally published scenarios. The scenarios and weightings applied are summarised below:

		UK Unemployment Rate – Annual Average				UK HPI – movement from H2 2021			
Scenario	Weightings	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %	Year 1 %	Year 2 %	Year 3 %	5 Yr Average %
June 2021									
Low	20%	5.1	4.8	4.4	4.4	(0.5)	(0.2)	2.8	3.9
Medium	50%	6.9	7.0	5.9	5.6	(2.4)	(3.0)	–	1.3
Hard	25%	7.5	7.7	6.6	6.1	(3.6)	(5.9)	(2.9)	(1.3)
Severe	5%	9.3	10.2	8.4	7.8	(13.0)	(22.4)	(19.4)	(16.3)

Scenario	Key assumptions	Weighting
June 2020		
Low case	Peak unemployment of 6.9%. Peak to trough HPI reduction of 11%	20%
Medium case	Peak unemployment of 9.0%. Peak to trough HPI reduction of 11%	45%
Hard case	Peak unemployment of 10.7%. Peak to trough HPI reduction of 16%	25%
Severe stress case	Peak unemployment of 12.0%. Peak to trough HPI reduction of 20%	10%

The annual averages of the key assumptions in the June 2020 scenarios for each of the next two years are shown below:

	Low case		Medium case		Hard case		Severe case	
Scenario	Year one %	Year two %	Year one %	Year two %	Year one %	Year two %	Year one %	Year two %
Average unemployment	6.2	4.9	8.0	5.6	9.4	6.0	11.0	6.8
HPI movement	(6.0)	(2.0)	(6.0)	(6.0)	(12.0)	(12.0)	(9.0)	(13.0)

		UK Unemployment Rate – Annual Average				UK HPI – movement from Q420			
Scenario	Weightings	2021 %	2022 %	2023 %	5 Yr Average %	2021 %	2022 %	2023 %	5 Yr Average %
December 2020									
Low	20%	5.9	5.9	5.2	5.1	(2.2)	(2.9)	1.9	3.7
Medium	45%	7.5	8.2	7.0	6.6	(4.1)	(7.4)	(2.8)	(0.3)
Hard	25%	7.7	8.4	7.2	6.7	(4.4)	(7.0)	(2.2)	(0.0)
Severe	10%	8.4	10.1	8.3	7.5	(16.4)	(24.4)	(20.4)	(16.3)

The sensitivity of the ECL allowance to reasonably possible changes in macroeconomic scenario weighting is presented below:

	Increase in hard case by 10% (June 2020: 5%, December 2020 10%) and reduction in low case			Increase in severe stress case by 5% (June 2020: 5%, December 2020: 5%) and reduction in medium case		
	June 2021 £million	June 2020 £million	December 2020 £million	**June 2021 £million**	June 2020 £million	December 2020 £million
Motor Finance	0.2	0.2	0.4	0.1	0.1	0.2
Retail Finance	0.3	0.2	0.5	0.2	0.2	0.2

The sensitivity is immaterial for other lending products.

2. Critical judgements and estimates continued

The Group recognised an ECL credit of £1.1 million (June 2020: charge of £31.5 million, December 2020: charge of £51.3 million). Were each of the macroeconomic scenarios to be applied 100%, rather than using the weightings set out above, the impact on ECL would be as follows:

Scenario	Motor Finance £million	Retail Finance £million	Business Finance £million	Total Group £million
June 2021				
Low	(1.7)	(2.2)	(1.3)	(5.2)
Medium	0.1	0.1	(0.4)	(0.2)
Hard	0.7	0.9	0.3	1.9
Severe	2.6	3.4	7.1	13.1

Scenario	Motor Finance £million	Retail Finance £million	Total Group £million
June 2020			
Low	(3.6)	(3.5)	(9.0)
Severe	3.3	4.3	15.6

Scenario	Motor Finance £million	Retail Finance £million	Business Finance £million	Total Group £million
December 2020				
Low	(3.0)	(3.8)	(2.1)	(8.9)
Medium	0.1	0.1	0.4	0.6
Hard	1.0	1.2	–	2.2
Severe	3.2	4.1	8.4	15.7

2.2.5. Debt Management forecast collections

A +/-8.0% change in Debt Management forecast collections, which the Directors consider to be a reasonably possible change, would increase or decrease Loans and advances to customers by £7.2 million (June 2020: 5%, £4.4 million, December 2020: 8%, £6.5 million) respectively, resulting in a corresponding £7.2 million (June 2020: £4.4 million, December 2020: £6.5 million) increase or decrease in profit or loss. During six months to 30 June 2021, the Group collected 106% versus forecast (December 2020: 92% versus forecast during the year).

3. Operating segments

The Group is organised into seven main operating segments, which consist of the different products available, disclosed below:

Business Finance

1) Real Estate Finance: residential and commercial investment and development loans secured by UK real estate.

2) Asset Finance: loans to small and medium-sized enterprises to acquire commercial assets.

3) Commercial Finance: invoice discounting, invoice factoring and Coronavirus Business Interruption Loan Scheme finance, for existing Commercial Finance customers.

Consumer Finance

4) Motor Finance: Hire purchase agreements secured against the vehicle being financed.

5) Retail Finance: Point of sale unsecured finance for in-store and online retailers.

6) Debt Management: Debt collection.

7) Consumer Mortgages: Residential mortgages for the self-employed, contract workers, those with complex income and those with a recently restored credit history, sold via select mortgage intermediaries.

For June 2021, loans and advances to customers include Assets held for sale. See Notes 7, 8 and 9 for further details. This relates to Asset Finance and Consumer Mortgages.

Notes to the interim report continued

3. Operating segments continued

Other

The 'Other' segment includes other products which are individually below the quantitative threshold for separate disclosure and fulfils the requirement of IFRS 8.28 by reconciling operating segments to the amounts reported in the interim report.

Other includes principally RentSmart (principally the funding and operation of finance leases through a disclosed agency agreement with RentSmart Limited), and prior to 30 June 2021, OneBill (the Group's consumer bill management service, which is now closed).

Currently, the Debt Management, Consumer Mortgages and Asset Finance segments all fall below the quantitative threshold for separate disclosure, but the Directors consider that they represent sufficiently distinct types of business to merit separate disclosure.

Management reviews these segments by looking at the income, size and growth rate of the loan books, impairments and customer numbers. Except for these items no costs or balance sheet items are allocated to the segments.

Funding costs and operating expenses are not aligned to operating segments for day-to-day management of the business, so they cannot be allocated on a reliable basis. Accordingly, profit by operating segment has not been disclosed.

All of the Group's operations relate to continuing operations, and are conducted wholly within the United Kingdom and geographical information is therefore not presented.

	Interest income and similar income £million	**Fee and commission income £million**	**Revenue from external customers £million**	**Impairment charge/(credit) on loans and advances to customers £million**	**Loans and advances to customers £million**	**Loan commitments £million**
June 2021						
Real Estate Finance	27.2	0.3	27.5	1.1	1,056.6	56.3
Asset Finance	0.3	–	0.3	0.1	5.8	–
Commercial Finance	3.8	3.8	7.6	–	239.4	120.7
Business Finance	31.3	4.1	35.4	1.2	1,301.8	177.0
Retail Finance	31.5	1.2	32.7	2.4	694.3	91.1
Motor Finance	18.7	0.7	19.4	(3.4)	244.3	0.5
Debt Management	7.3	0.1	7.4	(0.8)	90.4	–
Consumer Mortgages	1.3	–	1.3	–	56.6	–
Consumer Finance	58.8	2.0	60.8	(1.8)	1,085.6	91.6
Other	(1.1)	0.9	(0.2)	(0.5)	2.5	–
	89.0	**7.0**	**96.0**	**(1.1)**	**2,389.9**	**268.6**

	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Impairment charge on loans and advances to customers £million	Loans and advances to customers £million	Loan commitments £million
June 2020						
Real Estate Finance	26.7	–	26.7	2.0	1,036.8	107.7
Asset Finance	0.8	–	0.8	0.6	19.4	–
Commercial Finance	3.8	3.1	6.9	1.1	191.6	65.1
Business Finance	31.3	3.1	34.4	3.7	1,247.8	172.8
Retail Finance	35.5	1.2	36.7	12.9	647.7	54.9
Motor Finance	25.2	0.4	25.6	14.9	289.0	–
Debt Management	6.8	0.3	7.1	–	93.1	–
Consumer Mortgages	1.7	–	1.7	–	94.6	–
Consumer Finance	69.2	1.9	71.1	27.8	1,124.4	54.9
Other	0.2	2.5	2.7	–	5.3	–
	100.7	**7.5**	**108.2**	**31.5**	**2,377.5**	**227.7**

3. Operating segments continued

	Interest income and similar income £million	Fee and commission income £million	Revenue from external customers £million	Impairment charge/(credit) on loans and advances to customers £million	Loans and advances to customers £million	Loan commitments £million
December 2020						
Real Estate Finance	54.0	–	54.0	5.2	1,051.9	63.5
Asset Finance	1.5	–	1.5	0.9	10.4	–
Commercial Finance	7.3	7.9	15.2	1.1	230.7	128.5
Business Finance	62.8	7.9	70.7	7.2	1,293.0	192.0
Retail Finance	68.5	2.2	70.7	14.5	658.4	69.3
Motor Finance	44.6	0.9	45.5	20.7	243.9	0.2
Debt Management	14.2	0.6	14.8	8.9	81.8	–
Consumer Mortgages	3.3	0.1	3.4	(0.1)	77.7	–
Consumer Finance	130.6	3.8	134.4	44.0	1,061.8	69.5
Other	(0.9)	4.3	3.4	0.1	4.1	–
	192.5	**16.0**	**208.5**	**51.3**	**2,358.9**	**261.5**

4. Gains/(losses) on modifications of financial assets

Although not included as an option within customer contracts, following regulatory guidance and in response to COVID-19, the Group offered payment holidays to Consumer Finance and Asset Finance customers. This is considered under IFRS 9 as a modification to contractual cash flows, which requires the carrying value of these loans to be adjusted to the net present value of future cash flows.

An immaterial number of payment holidays were granted during the first six months of the year, resulting in no further loan modification loss being recognised. During the period the Group recognised a gain on the unwind of the loan modification loss recognised in 2020, amounting to £0.7 million.

As at 30 June 2021, the remaining impact of this is a £1.9 million (30 June 2020: £3.1 million, 31 December 2020: £2.5 million) reduction in the net present value of Motor Finance loans and a further £0.5 million (30 June 2020: £0.5 million, 31 December 2020: £0.6 million) reduction in the net present value of Retail Finance loans.

Financial assets (with loss allowance based on lifetime ECL) modified during the period	**June 2021 £million**	June 2020 £million	December 2020 £million
Gross loans and advances before modification	–	426.3	527.2
Less: allowances for impairments on loans and advances	–	(49.6)	(55.6)
	–	376.7	471.6
Loan modification loss relating to financial assets with a loss allowance based on lifetime ECL	–	(1.1)	(0.9)
Net amortised cost after modification	–	375.6	470.7

Notes to the interim report continued

5. Income tax expense

	June 2021 £million	June 2020 £million	December 2020 £million
Current taxation			
Corporation tax charge – current period	5.5	0.4	3.0
Corporation tax credit – adjustments in respect of prior periods	(0.2)	–	(0.5)
	5.3	0.4	2.5
Deferred taxation			
Deferred tax (credit)/charge – current period	(0.8)	0.8	0.9
Deferred tax charge – adjustments in respect of prior periods	0.2	–	0.5
	(0.6)	0.8	1.4
Income tax expense	**4.7**	**1.2**	**3.9**

The tax for all the periods above has been calculated at the current effective rate, which is 19%.

The Government legislated on 10 June 2021 to increase the main corporation tax rate to 25% from 1 April 2023. The Government intends to review the bank surcharge in Autumn 2021, to ensure the UK's banking tax regime remains competitive. Deferred tax is based on the combined effect of corporation tax and banking surcharge as enacted at the balance sheet date, so we expect changes legislated in the Finance Bill 2021–22 to partially offset the impact of the corporation tax rate change which has resulted in an increase of deferred tax assets of £1.0 million.

The main component of the deferred tax asset is deferred tax on the IFRS 9 transition adjustment, which reverses on a straight-line basis over 10 years commencing in 2018. The Company has assumed it will incur the 8% corporation tax surcharge on banking company profits in excess of £25.0 million during this period, but the quantum of this is uncertain in light of the Government review. Any changes in the forecast tax rate of the Company over this period could significantly affect the future tax charge.

6. Earnings per ordinary share

6.1 Basic

Basic earnings per ordinary share are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares as follows:

	June 2021	June 2020	December 2020
Profit attributable to equity holders of the parent (£ millions)	26.0	3.9	16.2
Weighted average number of ordinary shares (number)	18,634,320	18,603,521	18,615,480
Earnings per share (pence)	**139.5**	**21.0**	**87.0**

6.2 Diluted

Diluted earnings per ordinary share are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the period, as noted above, as well as the number of dilutive share options in issue during the period, as follows:

	June 2021	June 2020	December 2020
Weighted average number of ordinary shares	18,634,320	18,603,521	18,615,480
Number of dilutive shares in issue at the period end	367,546	140,026	399,713
Fully diluted weighted average number of ordinary shares	**19,001,866**	**18,743,547**	**19,015,195**
Dilutive shares being based on:			
Number of options outstanding at the period end	1,087,539	454,265	789,854
Exercise price (pence)	357	472	477
Average share price during the period (pence)	966	1,162	1,238
Diluted earnings per share (pence)	**136.8**	**20.8**	**85.2**

7. Loans and advances to customers

	June 2021 Loans and advances to customers £million	June 2021 Assets held for sale £million	June 2021 Total £million	June 2020 £million	December 2020 £million
Gross loans and advances	2,401.1	64.0	2,465.1	2,456.3	2,441.6
Less: allowances for impairment on loans and advances (Note 8)	(73.6)	(1.6)	(75.2)	(78.8)	(82.7)
	2,327.5	**62.4**	**2,389.9**	**2,377.5**	**2,358.9**

The fair value of loans and advances to customers is shown in Note 16.

8. Allowances for impairment of loans and advances

	Not credit impaired		Credit impaired			
	Stage 1: Subject to 12 month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and advances to customers £million	Provision cover %
June 2021						
Business Finance:						
Real Estate Finance	0.5	1.8	3.7	6.0	1,062.6	0.6%
Asset Finance	0.6	0.1	0.8	1.5	7.3	20.5%
Commercial Finance	0.8	0.3	0.2	1.3	240.7	0.5%
Consumer Finance:						
Retail Finance	13.1	5.8	3.9	22.8	717.1	3.2%
Motor Finance:						
Voluntary termination provision	4.0	–	–	4.0		
Other impairment	5.7	10.5	17.0	33.2		
	9.7	10.5	17.0	37.2	281.5	13.2%
Debt Management	–	–	6.3	6.3	96.7	6.5%
Consumer Mortgages	0.1	–	–	0.1	56.7	0.2%
Other	–	–	–	–	2.5	
	24.8	**18.5**	**31.9**	**75.2**	**2,465.1**	**3.1%**
Less Assets held for sale	(0.7)	(0.1)	(0.8)	(1.6)	(64.0)	2.5%
	24.1	**18.4**	**31.1**	**73.6**	**2,401.1**	**3.1%**

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continued

8. Allowances for impairment of loans and advances continued

	Not credit impaired		Credit impaired			
	Stage 1: Subject to 12 month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and advances to customers £million	Provision cover %
June 2020						
Business Finance:						
Real Estate Finance	2.2	0.1	0.3	2.6	1,039.4	0.3%
Asset Finance	0.3	0.3	1.5	2.1	21.5	9.8%
Commercial Finance	0.9	0.6	–	1.5	193.1	0.8%
Consumer Finance:						
Retail Finance	13.2	11.0	4.5	28.7	676.4	4.2%
Motor Finance:						
Voluntary termination provision	5.8	–	–	5.8		
Other impairment	6.6	16.0	17.3	39.9		
	12.4	16.0	17.3	45.7	334.7	13.7%
Debt Management	–	–	(2.1)	(2.1)	91.0	(2.3%)
Consumer Mortgages	0.2	–	0.1	0.3	94.9	0.3%
Other	–	–	–	–	5.3	0.0%
	29.2	**28.0**	**21.6**	**78.8**	**2,456.3**	**3.2%**

	Not credit impaired		Credit impaired			
	Stage 1: Subject to 12 month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million	Gross loans and advances to customers £million	Provision cover %
December 2020						
Business Finance:						
Real Estate Finance	1.4	2.7	1.3	5.4	1,057.3	0.5%
Asset Finance	0.6	0.1	1.3	2.0	12.4	16.1%
Commercial Finance	0.7	0.5	0.1	1.3	232.0	0.6%
Consumer Finance:						
Retail Finance	13.2	7.9	3.5	24.6	683.0	3.6%
Motor Finance:						
Voluntary termination provision	4.8	–	–	4.8		
Other impairment	6.2	16.0	15.2	37.4		
	11.0	16.0	15.2	42.2	286.1	14.8%
Debt Management	–	–	7.0	7.0	88.8	7.9%
Consumer Mortgages	0.2	–	–	0.2	77.9	0.3%
Other	–	–	–	–	4.1	0.0%
	27.1	**27.2**	**28.4**	**82.7**	**2,441.6**	**3.4%**

8. Allowances for impairment of loans and advances continued

Total provisions above include expert credit judgements as follows:

	June 2021 £million	June 2020 £million	December 2020 £million
Specific overlays held against secured assets held within the Business Finance portfolio	(6.9)	(1.2)	(3.4)
Future macroeconomic scenario overlay in respect of Motor Finance	–	6.6	–
Future macroeconomic scenario overlay in respect of Retail Finance	–	4.2	–
Management judgement in respect of LGD elements of the IFRS 9 models	0.6	–	0.6
Management judgement in respect of PD elements of the IFRS 9 models	3.8	–	2.8
POCI adjustment (see below)	6.0	(2.1)	6.7
Other	1.4	–	1.5
Expert credit judgements over the Group's IFRS 9 model results	**4.9**	**7.5**	**8.2**

At 30 June 2020, the future macroeconomic scenario overlays were in respect of the application of forward looking data, as included in Note 2.2.4, for the Consumer Finance portfolios where the macroeconomic variables had not been input directly to the models. The specific overlays had been estimated on an individual basis by assessing the recoverability and condition of the secured asset, along with any other recoveries that may be made.

POCI adjustment

The Group's debt management business purchases credit-impaired loans from the Company and other unrelated third parties. Under IFRS 9, these are classified as Purchased and Originated Credit Impaired ('POCI') loans. Income on POCI loans is initially recognised by applying the original credit-adjusted effective interest rate ('EIR') to the expected future cash flows arising from the POCI assets. The Group's accounting policy is to recognise POCI income by applying the original credit-adjusted EIR to the amortised cost of the assets. Expected changes in cash flows since the date of purchase are recognised as an impairment gain or loss in the income statement. As at 30 June 2021, a provision of £6.0 million (June 2020: negative provision of £2.1 million, December 2020: provision of £6.7 million) was held in respect of POCI assets.

Provisions included in 'Other' are in respect of various legacy products. This segment also includes loans of £2.4 million (June 2020: £5.2 million, December 2020: £3.9 million) held in STB Leasing Limited. The credit risk associated with those loans is retained by its partner, RentSmart. Accordingly, no provision is held against the RentSmart loans.

The impairment (credit)/charge disclosed in the income statement can be analysed as follows:

	June 2021 £million	June 2020 £million	December 2020 £million
Impairment charge in respect of loans and advances to customers	0.7	30.1	50.3
Impairment charges in respect of off balance sheet loan commitments	0.2	0.3	0.7
Loans written off, net of amounts utilised	(1.9)	1.3	0.6
Recoveries of loans written off	(0.1)	(0.2)	(0.3)
	(1.1)	**31.5**	**51.3**

Notes to the interim report continued

8. Allowances for impairment of loans and advances continued

Reconciliations of the opening to closing allowances for impairment of loans and advances are presented below:

	Not credit impaired		Credit impaired	
	Stage 1: Subject to 12 month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million
June 2021				
At start of period	27.1	27.3	28.3	82.7
Increase/(decrease) due to change in credit risk				
– Transfer to stage 2	(2.6)	11.4	–	8.8
– Transfer to stage 3	–	(8.6)	10.8	2.2
– Transfer to stage 1	1.6	(2.8)	–	(1.2)
Passage of time	(6.3)	(6.3)	(0.2)	(12.8)
New loans originated	8.9	–	–	8.9
Matured and derecognised loans	(2.0)	(1.8)	–	(3.8)
Changes to model	–	(0.4)	–	(0.4)
Changes to credit risk parameters	(1.2)	(0.3)	0.2	(1.3)
Other adjustments	0.3	–	–	0.3
Charge to income statement	(1.3)	(8.8)	10.8	0.7
Allowance utilised in respect of write offs	(1.0)	–	(7.2)	(8.2)
At end of period	**24.8**	**18.5**	**31.9**	**75.2**

	Not credit impaired		Credit impaired	
	Stage 1: Subject to 12 month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million
June 2020				
At start of period	21.6	24.1	14.9	60.6
Increase/(decrease) due to change in credit risk				
– Transfer to stage 2	(6.6)	21.3	–	14.7
– Transfer to stage 3	–	(12.2)	16.8	4.6
– Transfer to stage 1	1.5	(3.2)	–	(1.7)
Passage of time	(1.5)	(2.4)	1.1	(2.8)
New loans originated	6.1	–	–	6.1
Matured and derecognised loans	(1.2)	(1.4)	–	(2.6)
Changes to credit risk parameters	10.4	1.8	(0.4)	11.8
Other adjustments	–	–	–	–
Charge to income statement	8.7	3.9	17.5	30.1
Allowance utilised in respect of write offs	(1.1)	–	(10.8)	(11.9)
At end of period	**29.2**	**28.0**	**21.6**	**78.8**

8. Allowances for impairment of loans and advances continued

	Not credit impaired		Credit impaired	
	Stage 1: Subject to 12 month ECL £million	Stage 2: Subject to lifetime ECL £million	Stage 3: Subject to lifetime ECL £million	Total provision £million
December 2020				
At start of year	21.6	24.1	14.9	60.6
Increase/(decrease) due to change in credit risk				
– Transfer to stage 2	(5.4)	33.8	–	28.4
– Transfer to stage 3	–	(20.7)	28.3	7.6
– Transfer to stage 1	3.1	(6.6)	–	(3.5)
Passage of time	(10.9)	(10.5)	3.7	(17.7)
New loans originated	11.9	–	–	11.9
Matured and derecognised loans	(2.5)	(2.9)	–	(5.4)
Changes to credit risk parameters	11.4	10.1	7.4	28.9
Other adjustments	0.1	–	–	0.1
Charge to income statement	7.7	3.2	39.4	50.3
Allowance utilised in respect of write offs	(2.2)	–	(26.0)	(28.2)
At end of year	**27.1**	**27.3**	**28.3**	**82.7**

The table above has been prepared based on the monthly movements in ECL.

Passage of time represents the impact of accounts being paid down through their contractual life and the associated reduction in PDs. For stage 3 assets it represents the unwind of the discount applied in calculating the ECL.

Changes to model methodology represents movements that have occurred due to enhancements made to the models during the year.

Changes to credit risk parameters represents movements that have occurred due to the Group updating model inputs. This would include the impact of, for example, updating the macroeconomic scenarios applied to the models.

Other adjustments represents the movement in the Motor voluntary termination provision.

Stage 1 write offs arise on the Motor accounts that have exercised their right to voluntarily terminate their agreements.

9. Assets held for sale

As at 30 June 2021, the Asset Finance and Consumer Mortgages loan books were both in advanced stages of a sales process. During July the sale of both books were completed. Under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, the assets are required to be reclassified as 'Held for sale' on the face of the statement of financial position (£62.4 million). Neither of the businesses are significant enough to be classified as discontinued operations.

Further information on the contribution of each business to the Group can be found in Note 3. Details of impairment allowances for each business can be found in Note 8.

10. Due to banks

	June 2021 £million	June 2020 £million	December 2020 £million
Borrowings under the Bank of England's liquidity support operations, Term Funding Scheme and Term Funding Scheme with additional incentives for SMEs	303.0	263.0	263.0
Amounts due to other credit institutions	7.3	–	3.3
Indexed long-term repos	–	5.0	10.0
Accrued interest	0.1	0.1	0.1
	310.4	**268.1**	**276.4**

These are due for repayment between July 2021 and June 2025.

Notes to the interim report continued

11. Deposits from customers

	June 2021 £million	June 2020 £million	December 2020 £million
Access accounts	109.6	53.9	81.4
Term deposits and Notice accounts	1,656.7	1,865.1	1,781.5
Individual Savings Accounts	173.4	80.2	129.6
	1,939.7	**1,999.2**	**1,992.5**

The fair value of deposits from customers is shown in Note 16.

12. Provisions for liabilities and charges

	Other £million	ECL allowance on loan commitment £million	Total £million
June 2021			
At start of period	0.8	1.1	1.9
Charge to income statement	0.1	0.2	0.3
Utilised	(0.2)	–	(0.2)
At end of period	**0.7**	**1.3**	**2.0**

	Customer redress £million	Other £million	ECL allowance on loan commitment £million	Total £million
June 2020				
At start of period	0.2	0.1	0.4	0.7
(Release)/charge to income statement	(0.2)	0.1	0.3	0.2
At end of period	**–**	**0.2**	**0.7**	**0.9**

	Customer redress £million	Other £million	ECL allowance on loan commitment £million	Total £million
December 2020				
At start of period	0.2	0.1	0.4	0.7
(Release)/charge to income statement	(0.2)	1.4	0.7	1.9
Utilised	–	(0.7)	–	(0.7)
At end of period	**–**	**0.8**	**1.1**	**1.9**

12. Provisions for liabilities and charges continued

Customer redress provision

The Group provided for its best estimate of redress payable in respect of outstanding claims relating to historical sales of accident, sickness and unemployment insurance, by considering the likely future uphold rate for claims, in the context of confirmed issues and historical experience.

The Financial Conduct Authority announced a deadline for making these customer redress claims, which gave consumers until 29 August 2019 to make a claim, so no further claims were accepted after this date. At 31 December 2020, all such claims had been settled and therefore no further customer redress provision was required.

ECL allowance on loan commitments

In accordance with the requirements of IFRS 9, the Group holds an ECL allowance against loans it has committed to lend but that have not yet been drawn. For the Real Estate Finance and Commercial Finance portfolios, where a loan facility is agreed that includes both drawn and undrawn elements and the Group cannot identify the ECL on the loan commitment separately, a combined loss allowance for both drawn and undrawn components of the loan is presented as a deduction from the gross carrying amount of the drawn component, with any excess of the loss allowance over the gross drawn amount presented as a provision. At 30 June 2021, 30 June 2020 and 31 December 2020, no provision was held for losses in excess of drawn amounts.

Other

Other includes provision for fraud, which relates to cases where the Bank has reasonable evidence of suspected fraud, but further investigation is required before the cases can be dealt with appropriately, restructuring provision and s75 Consumer Credit Act 1974 provision.

The Directors expect all provisions to be fully utilised within the next 12 months.

13. Contingent liabilities and commitments

13.1 Contingent liabilities

As a financial services business, the Group must comply with numerous laws and regulations, which significantly affect the way it does business. Whilst the Group believes there are no material unidentified areas of failure to comply with these laws and regulations, there can be no guarantee that all issues have been identified.

13.2 Commitments

The Group's off balance sheet exposure to undrawn loan commitments at June 2021 was £268.6 million (June 2020: £227.7 million, December 2020: £261.5 million). Details of the split by business is given in Note 3.

14. Subordinated liabilities

	June 2021 £million	June 2020 £million	December 2020 £million
Tier 2 capital	50.0	50.0	50.0
Unamortised issue costs	(0.4)	(0.5)	(0.4)
Accrued interest	1.2	1.2	1.2
	50.8	**50.7**	**50.8**

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15. Capital

The Group's capital management policy is focused on optimising shareholder value, in a safe and sustainable manner. There is a clear focus on delivering organic growth and ensuring capital resources are sufficient to support planned levels of growth. The Board regularly reviews the capital position.

The following table shows the regulatory capital resources as managed by the Group:

	June 2021 £million Unaudited	June 2020 £million Unaudited	December 2020 £million Unaudited
Tier 1			
Share capital	7.5	7.4	7.5
Share premium	82.2	82.2	82.2
Retained earnings	198.2	168.6	179.9
Revaluation reserve	0.9	1.1	0.9
IFRS 9 transition adjustment	13.9	28.4	26.9
Goodwill	(1.0)	(1.0)	(1.0)
Intangible assets net of attributable deferred tax	(4.3)	(7.4)	(4.5)
Proposed dividend	(3.7)	–	(8.2)
CET 1 Capital	**293.7**	**279.3**	**283.7**
Tier 2			
Subordinated liabilities	50.8	50.7	50.8
Less ineligible portion	(4.3)	(0.7)	(5.7)
Total Tier 2 capital	**46.5**	**50.0**	**45.1**
Own funds	**340.2**	**329.3**	**328.8**
Reconciliation to total equity:			
Own funds	340.2	329.3	328.8
IFRS 9 transition adjustment	(13.9)	(28.4)	(26.9)
Eligible subordinated liabilities	(46.5)	(50.0)	(45.1)
Goodwill and other intangible assets net of attributable deferred tax	5.3	8.4	5.5
Cash flow hedge reserve	(0.1)	–	–
Proposed dividend	3.7	–	8.2
Total equity	**288.7**	**259.3**	**270.5**

16. Fair value of loans and advances to customers and deposits from customers

The fair value of loans and advances to customers and deposits from customers is set out below:

	Total carrying amount June 2021 £million	**Fair value June 2021 £million**	Total carrying amount June 2020 £million	Fair value June 2020 £million	Total carrying amount December 2020 £million	Fair value December 2020 £million
Loans and advances to customers	**2,327.5**	**2,356.6**	2,377.5	2,383.7	2,358.9	2,420.6
Deposits from customers	**1,939.7**	**1,957.7**	1,999.2	2,002.3	1,992.5	2,010.2

Freehold land and buildings are carried at fair value. All other assets and liabilities are carried at amortised cost.

17. Share-based payments

The Group has five share-based payment schemes in operation:

- Share Option Scheme
- 2017 Long term incentive plan
- 2017 Sharesave plan
- 2017 Deferred bonus plan
- 'Phantom' share option scheme

During the period, the Group granted the following:

- 1,702 options under the Deferred bonus plan, which vest in three equal instalments in 2022, 2023 and 2024, and are not subject to any performance conditions. The fair values at the date of grant were £10.85, £10.39 and £9.94 respectively calculated using a Black Scholes model and the option exercise price is £0.40p.
- 187,527 options under the Long term incentive plan, which vest in 2024, and are subject to risk management and total shareholder return performance conditions. The fair value at the date of grant was £7.58 calculated using a Monte Carlo simulation model and the option exercise price is £0.40p.
- 54,026 options under the Long term incentive plan, which vest in 2024, and are not subject to any performance conditions. The fair value at the date of grant was £9.94 calculated using a Black Scholes model and the option exercise price is £0.40p.

18. Related party transactions

There were no changes to the nature of the related party transactions during the period to June 2021 that would materially affect the position or performance of the Group. The nature and relative quantum of related party transactions has not changed in the six months ended 30 June 2021 in comparison to the year ended 31 December 2020. Details of the transactions for the year ended December 2020 can be found in the 2020 Annual Report and Accounts.

19. Management of credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Details of the management of credit risk can be found in the 2020 Annual Report and Accounts.

Notes to the interim report
continued

19. Credit risk continued

	Stage 1	Stage 2			Stage 3			
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit impaired £million	Purchased credit impaired £million	Total £million	Total £million
June 2021								
Business Finance								
Real Estate Finance	780.8	231.3	4.1	235.4	46.4	–	46.4	1,062.6
Asset Finance	5.4	1.1	–	1.1	0.8	–	0.8	7.3
Commercial Finance	227.6	12.8	–	12.8	0.3	–	0.3	240.7
Consumer Finance								
Retail Finance	642.7	67.9	2.2	70.1	4.3	–	4.3	717.1
Motor Finance	177.3	79.3	1.1	80.4	23.8	–	23.8	281.5
Debt Management	–	–	–	–	11.0	85.7	96.7	96.7
Consumer Mortgages	53.1	–	2.1	2.1	1.5	–	1.5	56.7
Other	2.5	–	–	–	–	–	–	2.5
Total drawn exposure	**1,889.4**	**392.4**	**9.5**	**401.9**	**88.1**	**85.7**	**173.8**	**2,465.1**
Off balance sheet								
Loan commitments	268.6	–	–	–	–	–	–	268.6
Total gross exposure	**2,158.0**	**392.4**	**9.5**	**401.9**	**88.1**	**85.7**	**173.8**	**2,733.7**
Less:								
Impairment allowance	(24.8)	(16.2)	(2.3)	(18.5)	(25.9)	(6.0)	(31.9)	(75.2)
Provision for loan commitments	(1.3)	–	–	–	–	–	–	(1.3)
Total net exposure	**2,131.9**	**376.2**	**7.2**	**383.4**	**62.2**	**79.7**	**141.9**	**2,657.2**

19. Credit risk continued

	Stage 1	Stage 2			Stage 3			
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit impaired £million	Purchased credit impaired £million	Total £million	Total £million
June 2020								
Business Finance								
Real Estate Finance	959.8	41.3	13.1	54.4	25.2	–	25.2	1,039.4
Asset Finance	15.3	4.5	–	4.5	1.7	–	1.7	21.5
Commercial Finance	184.8	8.3	–	8.3	–	–	–	193.1
Consumer Finance								
Retail Finance	580.6	88.0	2.5	90.5	5.3	–	5.3	676.4
Motor Finance	192.3	114.4	3.0	117.4	25.0	–	25.0	334.7
Debt Management	93.0	–	0.3	0.3	1.6	–	1.6	94.9
Consumer Mortgages	–	–	–	–	12.0	79.0	91.0	91.0
Other	5.3	–	–	–	–	–	–	5.3
Total drawn exposure	**2,031.1**	**256.5**	**18.9**	**275.4**	**70.8**	**79.0**	**149.8**	**2,456.3**
Off balance sheet								
Loan commitments	227.7	–	–	–	–	–	–	227.7
Total gross exposure	**2,258.8**	**256.5**	**18.9**	**275.4**	**70.8**	**79.0**	**149.8**	**2,684.0**
Less:								
Impairment allowance	(29.2)	(24.8)	(3.2)	(28.0)	(23.7)	2.1	(21.6)	(78.8)
Provision for loan commitments	(0.7)	–	–	–	–	–	–	(0.7)
Total net exposure	**2,228.9**	**231.7**	**15.7**	**247.4**	**47.1**	**81.1**	**128.2**	**2,604.5**

Notes to the interim report continued

19. Credit risk continued

	Stage 1	Stage 2			Stage 3			
	£million	<= 30 days past due £million	> 30 days past due £million	Total £million	Excl. purchased credit impaired £million	Purchased credit impaired £million	Total £million	Total £million
December 2020								
Business Finance								
Real Estate Finance	858.9	136.5	37.9	174.4	24.0	–	24.0	1,057.3
Asset Finance	9.5	1.4	–	1.4	1.5	–	1.5	12.4
Commercial Finance	205.1	26.6	–	26.6	0.3	–	0.3	232.0
Consumer Finance								
Retail Finance	589.1	86.8	3.3	90.1	3.8	–	3.8	683.0
Motor Finance	173.7	87.2	2.6	89.8	22.6	–	22.6	286.1
Debt Management	–	–	–	–	11.7	77.1	88.8	88.8
Consumer Mortgages	74.9	–	1.8	1.8	1.2	–	1.2	77.9
Other	4.1	–	–	–	–	–	–	4.1
Total drawn exposure	**1,915.3**	**338.5**	**45.6**	**384.1**	**65.1**	**77.1**	**142.2**	**2,441.6**
Off balance sheet								
Loan commitments	261.5	–	–	–	–	–	–	261.5
Total gross exposure	**2,176.8**	**338.5**	**45.6**	**384.1**	**65.1**	**77.1**	**142.2**	**2,703.1**
Less:								
Impairment allowance	(27.1)	(22.7)	(4.5)	(27.2)	(21.7)	(6.7)	(28.4)	(82.7)
Provision for loan commitments	(1.1)	–	–	–	–	–	–	(1.1)
Total net exposure	**2,148.6**	**315.8**	**41.1**	**356.9**	**43.4**	**70.4**	**113.8**	**2,619.3**

19.1 Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the nature of the Group's lending operations the Directors consider the lending operations of the Group as a whole to be well diversified. Details of the Group's loan and advances to customers and loan commitments by product is provided in Note 3.

The Group's Real Estate Finance and Consumer Mortgages are secured against UK property only. The geographical concentration of these business loans and advances to customers, by location of the security, is set out below:

	June 2021 £million	June 2020 £million	December 2020 £million
Real Estate Finance			
Central England	151.8	52.1	139.7
Greater London	650.1	628.0	638.4
Northern England	60.0	62.6	65.8
South East England (excl. Greater London)	145.3	264.1	171.3
South West England	28.1	14.8	18.1
Scotland, Wales and Northern Ireland	27.3	17.8	24.0
Gross loans and receivables	1,062.6	1,039.4	1,057.3
Allowance for impairment	(6.0)	(2.6)	(5.4)
Total	**1,056.6**	**1,036.8**	**1,051.9**
Loan-to-value	**57%**	**57%**	**56%**

19. Credit risk continued

19.1 Concentration risk continued

	June 2021 £million	June 2020 £million	December 2020 £million
Consumer mortgages			
Central England	10.6	18.3	14.6
Greater London	7.4	11.5	10.2
Northern England	12.5	18.9	16.2
South East England (excl. Greater London)	16.8	31.9	25.6
South West England	5.8	9.5	7.3
Scotland, Wales and Northern Ireland	3.6	4.8	4.0
Gross loans and receivables	56.7	94.9	77.9
Allowance for impairment	(0.1)	(0.3)	(0.2)
Total	**56.6**	**94.6**	**77.7**
Loan-to-value	**47%**	**55%**	**51%**

Under its credit policy, the Real Estate Finance business lends to a maximum loan-to-value of 70% for investment loans and 60% for residential development loans and up to 65% for pre-let commercial development loans (based on gross development value), and the Consumer Mortgages business lent to a maximum of 90%.

20. Cash flow statement

20.1 Cash and cash equivalents

	June 2021 £million	Restated June 2020 £million	December 2020 £million
Cash and balances at central banks	138.4	109.6	181.5
Loans and advances to banks	43.3	42.0	63.3
Less restricted cash	(10.8)	(13.8)	(12.7)
	170.9	**137.8**	**232.1**

At June 2020, £12.2 million was presented as cash and cash equivalents, which was restricted. To ensure that the information above is consistent with that given in the 2020 Annual Report and Accounts, the June 2020 information in the table above and the cash flow statement have been restated.

20.2 Issue of ordinary shares

On 10 May 2021, as a result of the exercise of share options, the Company issued 4,710 ordinary shares with a par value of £1,884 at par. Accordingly, at June 2021 the Company had a total of 18,638,372 ordinary shares in issue (December 2020: 18,633,662, June 2020: 18,622,664).

Appendix to the interim report: Alternative performance measures

Key performance indicators

(i) Margin ratios

Net interest margin is calculated as interest income and similar income less interest expense and similar charges for the financial period as a percentage of the average loan book, net revenue margin is calculated as operating income for the financial period as a percentage of the average loan book and gross revenue margin is calculated as interest receivable and similar income plus fee and commission income for the financial period as a percentage of the average loan book. The calculation of the average loan book is the average of the monthly balance of loans and advances to customers, net of provisions, over seven or 13 months as appropriate for the financial period. The resulting margins for June 2021 are multiplied by 365/181 and margins for June 2020 are multiplied by 366/182 to give an annual equivalent comparable to the annual results:

	June 2021 £million	June 2020 £million	December 2020 £million
Net interest margin			
Interest receivable and similar income	89.0	100.7	192.5
Interest expense and similar charges	(15.5)	(22.8)	(41.6)
Net interest income	73.5	77.9	150.9
Net revenue margin			
Net interest income	73.5	77.9	150.9
Net fee and commission income	6.7	7.0	15.2
Operating income	80.2	84.9	166.1
Gross revenue margin			
Interest receivable and similar income	89.0	100.7	192.5
Fee and commission income	7.0	7.5	16.0
Gross revenue	96.0	108.2	208.5
Opening loan book	2,358.9	2,450.1	2,450.1
Closing loan book	2,389.9	2,377.5	2,358.9
Average loan book	2,346.3	2,439.5	2,406.0
Net interest margin	**6.3%**	**6.4%**	**6.3%**
Net revenue margin	**6.9%**	**7.0%**	**6.9%**
Gross revenue margin	**8.3%**	**8.9%**	**8.7%**

In order to measure margins on a like-for-like basis, closing loan book above includes Assets held for sale.

The margin ratios all measure the yield of the loan book.

Key performance indicators continued

(ii) Cost ratios

Cost of risk is calculated as the impairment charge on loans and advances to customers for the financial period as a percentage of the average loan book, cost of funds is calculated as interest expense (excluding interest on liability swaps) for the financial period as a percentage of average loan book and cost to income ratio is calculated as operating expenses for the financial period as a percentage of operating income for the financial period. The resulting ratios for June 2021 are multiplied by 365/181 and margins for June 2020 are multiplied by 366/182 to give an annual equivalent comparable to the annual results:

	June 2021 £million	June 2020 £million	December 2020 £million
Impairment (credit)/charge on loans and advances to customers	(1.1)	31.5	51.3
(Gains)/losses on modification of financial assets	(0.7)	3.6	3.1
	(1.8)	35.1	54.4
Average loan book	2,346.3	2,439.5	2,406.0
Cost of risk	**(0.2)%**	**2.9%**	**2.3%**
Interest expense and similar charges	15.5	22.8	41.6
Interest on liability swaps	0.9	0.7	1.9
	16.4	23.5	43.5
Average loan book	2,346.3	2,439.5	2,406.0
Cost of funds	**1.4%**	**1.9%**	**1.8%**
Operating expenses	51.3	44.7	91.6
Operating income	80.2	84.9	166.1
Cost to income ratio	**64.0%**	**52.7%**	**55.1%**

The cost of risk measures how effective the Group has been in managing the credit risk of its lending portfolios. The cost of funds measures the cost of money being lent to customers. The cost to income ratio measures how efficiently the Group is utilising its cost base in producing income.

(iii) Return ratios

Annualised return on average assets is calculated as the profit after tax for the financial period as a percentage of average assets, annualised return on average equity is calculated as the profit after tax for the financial period as a percentage of average equity and annualised return on required equity is calculated as the profit after tax for the financial period as a percentage of average required equity.

Average assets is calculated as the average of the monthly assets balances, over seven or 13 months as appropriate for the financial period, average equity is calculated as the average of the monthly equity balances over seven or 13 months as appropriate for the financial period and average required equity is calculated as the average of the monthly balances of total required equity over seven or 13 months as appropriate for the financial period. Total required equity is calculated as the equity required to achieve a CET 1 ratio of 12%. The resulting returns for June 2021 are multiplied by 365/181 and margins for June 2020 are multiplied by 366/182 to give an annual equivalent comparable to the annual results:

Appendix to the interim report: Alternative performance measures continued

Key performance indicators continued

	June 2021 £million	June 2020 £million	December 2020 £million
Profit after tax	26.0	3.9	16.2
Opening assets	2,664.1	2,682.8	2,682.8
Closing assets	2,637.1	2,630.7	2,664.1
Average assets	2,631.1	2,728.4	2,692.5
Opening equity	270.5	254.1	254.1
Closing equity	288.7	259.3	270.5
Average equity	278.9	260.1	263.6
Opening required equity	240.2	251.8	251.8
Closing required equity	247.8	246.6	240.2
Average required equity	242.6	253.2	250.2
Annualised return on average assets	**2.0%**	**0.3%**	**0.6%**
Annualised return on average equity	**18.8%**	**3.0%**	**6.1%**
Annualised return on required equity	**21.6%**	**3.1%**	**6.5%**

Return on average assets demonstrates how profitable the Group's assets are in generating revenue. Return on average equity is a measure of the Group's ability to generate profit from the equity available to it. Return on required equity relates profitability to the capital that the Group is required to hold.

(iv) Funding ratios

The loan to deposit ratio is calculated as the loan book, at the period end, divided by deposits from customers at the period end, and the total funding ratio is calculated as the total funding at the period end, being the sum of deposits from customers, borrowings under the TFS and TFSME, Tier 2 capital and equity, divided by the loan book at the period end:

	June 2021 £million	June 2020 £million	December 2020 £million
Loan book	2,389.9	2,377.5	2,358.9
Deposits from customers	1,939.7	1,999.2	1,992.5
Amounts due to banks	310.4	268.1	276.4
Less amounts due to other credit institutions	(7.3)	–	(3.3)
Tier 2 capital (including accrued interest)	50.8	50.7	50.8
Equity	288.7	259.3	270.5
Total funding	2,582.3	2,577.3	2,586.9
Loan to deposit ratio	**123.2%**	**118.9%**	**118.4%**
Total funding ratio	**108.1%**	**108.4%**	**109.7%**

The funding ratios measure the Group's liquidity.

(v) Adjusted profit

No adjustments to profit have been made for the current period, and adjustments to profit as previously disclosed have been removed from June 2020. Details of these adjustments can be found in the 2020 Interim Report (page 64).

Directors' responsibility statement

The Directors confirm that, to the best of their knowledge:

- the condensed financial statements have been prepared in accordance with United Kingdom adopted International Accounting Standard 34 – 'Interim Financial Reporting', issued by the IASB and give a true and fair view of the assets, liabilities, financial position and profit of the undertakings included in the consolidation as a whole;
- the interim business review includes a fair review of the information required by Section 4.2.7R of the Disclosure Guidance and Transparency Rules, issued by the UK Listing Authority (that being an indication of important events that have occurred during the first six months of the current financial year and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year); and
- the interim business review includes a fair review of the information required by Section 4.2.8R of the Disclosure Guidance and Transparency Rules, issued by the UK Listing Authority (that being disclosure of related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and any changes in the related party transactions described in the last annual report which could do so).

Approved by the Board of Directors and signed on behalf of the Board.

David McCreadie
Chief Executive Officer

Lord Forsyth
Chairman

4 August 2021

Independent review report to Secure Trust Bank PLC

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2021 which comprises the condensed consolidated statement of comprehensive income statement, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 20. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 2, the annual financial statements of the Group will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this interim financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
Birmingham

4 August 2021

Board of Directors

The Rt Hon Lord Forsyth of Drumlean PC, Kt
Non-Executive Chairman

Ann Berresford ACA
Independent Non-Executive Director
(Senior Independent Director)

Rachel Lawrence
Chief Financial Officer

David McCreadie FCBI
Chief Executive Officer

Paul Myers ACIB
Independent Non-Executive Director

Baroness Lucy Neville-Rolfe DBE CMG
Independent Non-Executive Director

Victoria Stewart
Independent Non-Executive Director

Finlay Williamson
Independent Non-Executive Director

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